★ SOBERING FACTORS CONFRONTING INVESTORS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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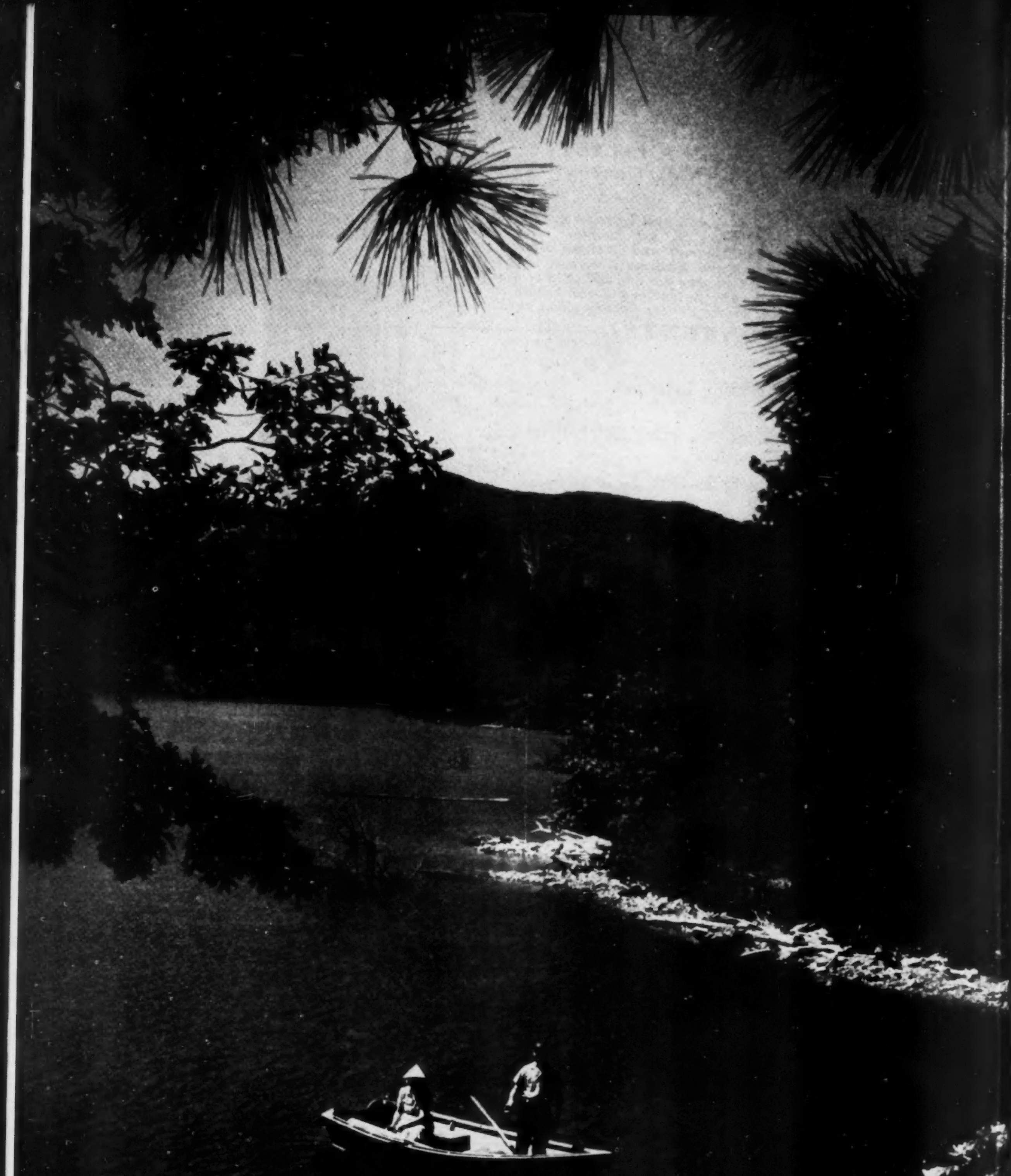
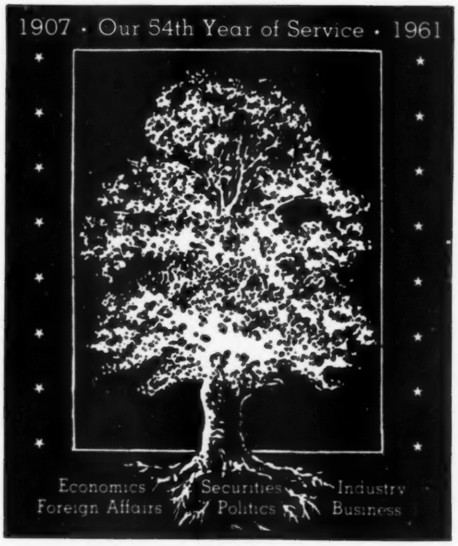


THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

OUR CONFUSION IN AN AGE OF REVOLUTION . . . The behavior of our government—of our State Department—is such that Americans are beginning to question the philosophy and qualifications of the administrators.

Many serious matters have been handled with what seems to be incredible stupidity—for the steps taken have played right into the hands of the Communists again and again.

Take our adventure in Suez, for example, which disrupted our relations with France and England to the advantage of the Communists, for it strengthened Nasser, just emerging on the Egyptian scene, and made him a powerful figure in the world of the Middle East—and as leader of the Pan Arab Bloc, alienated countries in that area with which we have had close commercial and political relations over the years. It lost us the goodwill of Saudi Arabia—a friend of long standing in that part of the world. Thus, Khrushchev, who had been moving heaven and earth to create differences between the United States and its allies, won a top level victory.

Our next serious mistake was the failure to stop Castro right at the beginning, when it became clear he was headed toward Communism. Since then we have permitted the straggly-bearded dictator to so strengthen his ties with the Soviet Union that we have virtually been of help in the building up of an enemy base 90 miles from our shores—a subversion center which has become the headquarters for Communist infiltration of all of Latin America, whose leaders prefer to maintain an economy where vast wealth for the few and dire poverty for the masses will continue to exist.

At the same time, we have shown a bewildering inconsistency in dealing with various nations. While we consider that to take steps against Castro would be interfering in the internal affairs of Cuba, we do not hesitate to do so in the Dominican Republic, which I found to possess an enlightened government producing prosperity for all the people. I personally saw housing developments where cottages can be rented for $20 to $40 per month, something unheard of anywhere in Latin America. Here is a country too that should be cultivated because of its strategic position in the Caribbean, instead of being kicked around as the State Department seems to be doing, in the face of the subversive and revolutionary atmosphere that surrounds us. This policy seems particularly short-sighted in view of the inroads Communism is already making in this crucial area.

Another case of ill-considered action is our attack on Portugal, who has been a loyal ally, and a country in which American bases are welcome at a time when other "allies" are either throwing us out or asking us to move. How can we make dictatorships an issue when we recognize the Soviet Union, a reactionary dictatorship of the first rank

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Business, Financial *and* Investment Counsellors: 1907 — *"Our 54th Year of Service"* — 1961

—especially in view of the recently published agreements made at Yalta between Franklin D. Roosevelt and Stalin, involving the take-over of the Baltic states and permitting status quo for Russia in Europe. It seems ridiculous to charge up what has taken place to sheer stupidity merely—more likely we have chosen the wrong representatives to handle our affairs.

● Take Mr. Acheson for instance, who it appeared could always be counted on to agree with the British point of view—and the selection of Averill Harriman to deal with the Russians, although during the period when he was ambassador to the Kremlin our relations fell to a new low.

● Then there is Adlai Stevenson, a liberal in the camp headed by Mrs. Eleanor Roosevelt, who thought well of the "tractors-for-prisoners" deal with Castro—and who, despite his gift for eloquence, was twice rejected as presidential timber because of his indecisive personality.

And now, as much as we as citizens of these United States were ready to back Mr. John F. Kennedy to the hilt after his election, the anxiety over what has taken place since he came to office is disrupting constructive activity in this country and causing sobering second-thoughts regarding the outlook.

The succeeding editorial by Malcolm Stewart on the uneasiness in Washington and the reasons therefor will be of intense interest to you.

TIME RUNNING OUT ON A NUMBER OF FRONTS. WHAT NEXT? . . . By Malcolm Stewart.

THERE is growing uneasiness in Washington over President Kennedy's handling of the international situation. With crisis piling on crisis, even some Democrats are beginning to mutter about the apparent lack of direction and coordination in foreign policy.

The Kennedy Administration, after almost six months in office, seems to be strong on rhetoric but weak on action. Firm statements by official spokesmen are not matched by resolute execution in the field and at the conference table.

Brave words and ringing phrases alone are not going to solve the multitude of problems which beset the President and his coteries of somewhat ill-assorted advisers.

"To Be or Not To Be"

With Soviet Premier Khrushchev tightening the screws on Berlin and Germany every day, and creeping Communism steadily extending its tentacles throughout the under-developed areas, the inaction of the Administration is becoming more and more apparent.

Time is running out for the West on a number of fronts — Berlin and Germany, Laos, Iran and Latin America. This year promises to be one of mounting tension, with the Communist imperialists steadily eating away at the Western position.

And the Berlin situation finds Russia and the United States on a "collision course" which could end in a disastrous impact triggering a World war.

The Administration's record in dealing with Cuba and Laos does not inspire any great confidence in its ability to meet the challenge of the mounting Berlin crisis.

Washington—and the World—are beginning to wonder how Kennedy can cope with the big peace-or-war issues in Europe when he has not been able to stem the erosion of the American position on other fronts.

The public, too, is bound to lose confidence when it finds that the Administration's tough statements are so much wind and fury when it comes to a showdown.

Kennedy declared flatly last March that the United States would never stand idly by and watch the Communists take over Laos, into which the American government has poured more than $350 million of aid.

It was a dramatic news conference at which the President, armed with maps, made this pledge.

Yet three months later eventual Communist domination of the Southeast Asian kingdom was virtually conceded.

● The United States said it would never agree to negotiate Laos' future at the 14-nation Geneva Conference unless there were an iron-clad cease-fire in the civil war there. Yet it has done so for more than six weeks while Communist rebel attacks against the beleaguered pro-Western forces went on with utter contempt.

● The Administration went into a conference where the cards were stacked against it and then lacked the courage to walk out when the Communists failed to stop fighting in Laos or negotiate in good faith.

The position of the United States in South Viet Nam and Thailand, both under threat from the Communists, has been weakened tremendously by this startling evidence that Washington would not back up its stirring words with strong action when the chips were down.

● The President's strong words condemning

Cuba's Fidel Castro were followed up by his endorsement of an incredibly ill-conceived and ineptly-handled "invasion" which had virtually no chance of success but was bound to damage already falling American prestige in Latin America.

● **European diplomats have warned Kennedy that Iran, which we went to great lengths to save from Communist domination in the late 1940's and early 1950's, is on the brink of disaster. The Communists are preparing for another attempt which has a good chance of success.**

If the Administration is concerned about this it has yet to let the American people know it.

The record of uncertainty and vacillation in the so-called "peripheral" areas is what worries Washington observers when they try to figure how Kennedy will stack up against Khrushchev in the big showdown in Europe.

Khrushchev has demanded an immediate German peace treaty on his terms, with the Allies pulling out of their enclave of freedom in West Berlin. He says that if he does not get this, he will sign a separate peace treaty with Communist East Germany and give the local reds power to block Western access routes to Berlin, deep in Communist territory. If the Allies try to force their way in without permission from the East German stooges, says Khrushchev, he will use military force to back up the local reds.

Khrushchev has named a deadline for the Allies to capitulate—by the end of this year. Yet Secretary of State Dean Rusk says the United States does not consider that it has been presented with an "ultimatum".

Khrushchev says he will fight to enforce any East German blockade of the Allies in Berlin. Kennedy says he will fight to break it.

On the basis of the Administration's record so far, Khrushchev cannot be blamed if he has some doubt as to whether Kennedy means what he says.

► **The Soviet leader knows, too, that Britain can always be counted on to bring pressure for Allied "concessions" when the crisis point is reached.**

► Kennedy admits that Russia obviously does not want a nuclear test ban on any terms which would provide for workable inspection and control. ● He acknowledges, too, that U. S. national security will not permit indefinite continuation of the present moratorium, already in effect for more than two and one-half years, which Russia may well be violating. ● **Yet the Administration says it will continue to attend the fruitless and stalled Geneva talks. Why?—For fear of offending World opinion, especially in the "neutralist" bloc, by breaking off discussions and resuming underground tests.**

Many are asking: Is the U. S. national security to be jeopardized simply for fear of displeasing the clamorous gallery of uncommitted nations which take no sides in the struggle against Communism but remain free and able to express their opinions only because of the deterrent effect of American military power?

Kennedy came into office touted as a dynamic executive who would bring new vigor to foreign policy. He undoubtedly is a brilliant young man with an instinctive sense for domestic politics. He also was supposed to have a good sense of historical perspective.

► **He obviously lacked administrative experience and this undoubtedly is to blame for some of the inefficiency and lack of coordination in the executive branch.**

► **But it cannot account for all of the shortcomings so far—and it's getting later all the time.**

THE REPORT OF THE COMMISSION ON MONEY AND CREDIT . . . By Jack Bame.

THE first comprehensive results of three years of intensive research by the privately sponsored Commission on Money and Credit on our public and private money and credit system were published on June 19th. Within the next few days, a rash of press comments ranging from high praise to near-damnation appeared. The report itself was marked by sharp dissents of individual members on particular issues, in part explainable by their differences in philosophy and background, coming from such diverse groups as business, finance, labor and government.

The report, being the most extensive examination of our financial structure since the 1911 Aldrich National Monetary Commission study (which led to the establishment of the Federal Reserve System in 1913), deserves the most careful study, especially by the business community itself. A thorough analysis of this new report will appear in our July 15th issue.

Many of the proposals and recommendations are likely to lead to wide public and Congressional discussions and controversy, a healthy situation. As many of the 109 or so individual research studies behind the report will also be published by the Commission, debates will continue, keeping the problems of governmental and private financial policy and institutions in the public eye for some time to come.

► **The report should not be looked upon as a document separated from the real problems of the day or as an end in itself. For instance, Secretary of the Treasury Dillon's recent request of Congress to raise the "temporary" debt limit from $293 to $298 billion has already caused a number of eyebrows to be raised. The report goes even further, recommending that the national debt ceiling be abolished.** This has come in for heavy criticism among those conservatives opposed to increases in government spending.

► **Also startling is the recommendation that the obligatory 25% gold reserve be abolished, while the Commission's proposal to end the 4¼% interest lid on new government bond issues is likely to irk some liberals in Congress.**

► **Without doubt, the study calls for a greater degree of government intervention in the economy, much of it better coordinated and under the direct supervision of the President. A most controversial proposal is that of giving the President the power to temporarily change first-bracket 20% tax rates, as a counter-cyclical weapon, by as much as 5% in either direction.** *(Please turn to page 452)*

Sobering Factors Confronting Investors

Market hesitation and caution reflect increased emphasis on uncertainties, of which the most momentous is the threat of a nearing East-West showdown over Berlin. Unless it is resolved without war, a "summer rally", if there is one, could mean little. Despite the promise of more business revival, the medium-term market movement may well be restricted. Go slowly and carefully on any new buying. There is no case for general liquidation.

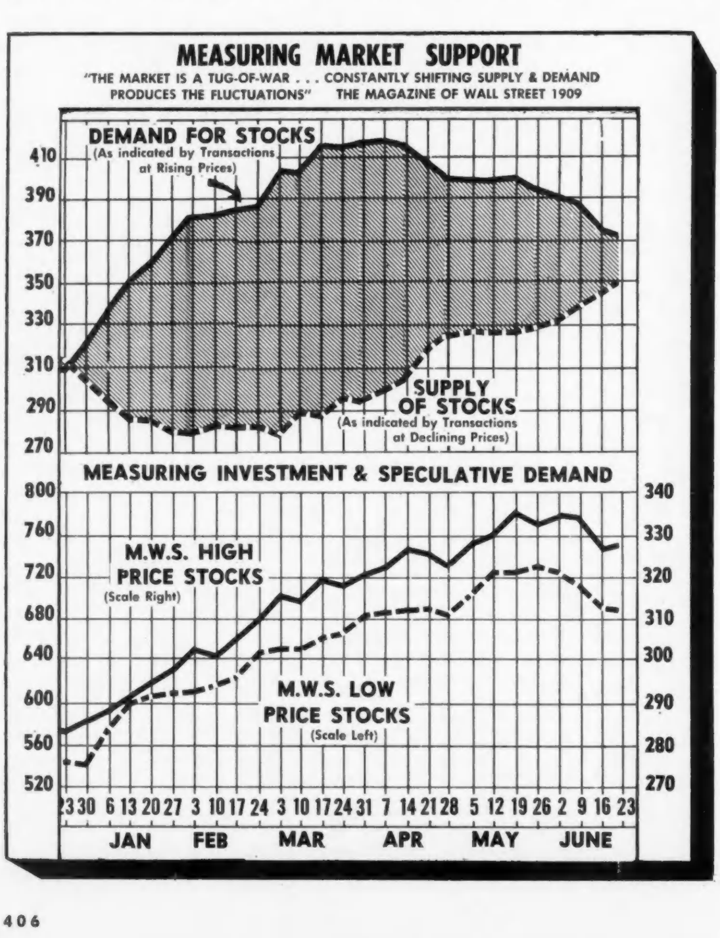
By A. T. MILLER

PROBABLY the back of the bull market is not broken—if we do not get into war over Berlin. But for the present it is certainly bent and ailing. Much of the earlier investment and speculative enthusiasm for common stocks has evaporated.

There are various reasons for the shift to a more sober mood. The Communist threat to Berlin, now pointing to crisis in a matter of months, is foremost among them, and will not be easy for investors to live with comfortably. But it must be noted that stock prices started to react from the mid-May high some days in advance of the fruitless Kennedy-Krushchev discussions at Vienna. So other considerations are also involved.

One of them is simply the fact that the market, in anticipating the business recovery, had risen too fast and too far, creating need in any event for some degree of consolidation or correction while waiting partial catching up in business.

Other factors which have tended to inhibit demand for stocks, while selling has remained relatively light, include these: (1) the series of warnings from responsible sources about the dangers in uninformed speculation, which was running rife not so long ago, especially in the over-counter and American Exchange markets; (2) indicated SEC moves toward more vigorous policies in investigation and regulation: (3) Government action and threats on the anti-trust fronts; (4) competitive price cutting in a number of lines of business, including steel and paper; and (5) an increasing number of large secondary offerings involving liquidation of various stocks, in most cases by investment companies or company insiders, in two cases by charitable foundations.



A More Basic Question

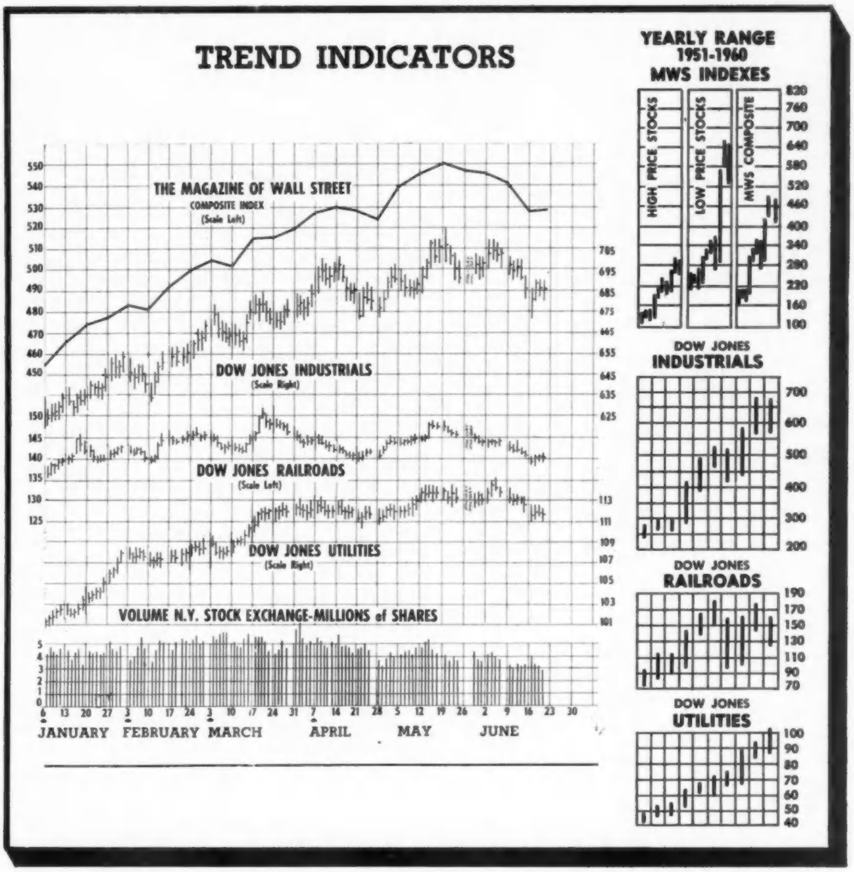
Besides all this, there is another less tangible, but highly important consideration. It is the deterioration, both here and abroad, of confidence in the Kennedy Administration's competence and wisdom in the handling of foreign affairs, and in its domestic policies. There is an evident babel of conflicting voices among the policy advisers, too many loose ends. **The most influential British newspaper (The London Times) now calls it an Administration in "political disarray."**

It has "fumbled the ball" on Cuba, on Laos and on initial handling of the opportunity created by the killing of the late dictator of the Dominican Republic. So now policy on Berlin—a situation created by monumental folly of Roosevelt and Truman, against the urgent

pleadings of Churchill—is under "study" and "debate." A fumble here could mean nuclear war. That has been so for years—yet there is still no policy sufficiently clear either to give the West Germans full assurance or to impress Khrushchev.

In domestic policy the New Frontier is in many respects a warmed-over version of the New Deal, which was never able to promote real economic growth or solve the vast unemployment problem of its time until World War II took it off the hook. Instead of going forward, we are going back to extravagant Federal spending and loose fiscal policies. As with the New Deal, the advisers now listened to are left-wing university professors. Their theories on how to get economic growth have been tried and proved wrong.

It apparently means nothing to them or to Kennedy that postwar history provides unquestionable examples of outstanding success for the opposite policies—for intelligently conservative policies—in the cases of Germany, Japan, Britain and France.



Well, we are going to get more of the cyclical business revival that is already well under way. **And we are going to get some growth, probably more or less in line with the average of recent years, despite the Kennedy policies, not because of them. The labor unions will continue to kite wages, costs and prices wherever possible and to the extent possible. Competition will remain keen. Looking beyond the cyclical rebound, there will be little or no secular growth of profits in older industries; and growth of total profits will be at a slow average rate, as has been so over the last ten years.**

In most services, where there is no technological progress, higher wage costs must go directly and fully into higher prices. This is why service prices have risen so much more than prices of goods. So services will take more and more of the consumer's dollar, while the makers and retailers of goods scramble for the balance of it, whatever the Government does.

The Technical Pattern

The market has now been in an irregular "secondary reaction" for about five weeks, during each of which more individual stocks lost ground than gained. A feature of note is that in seven consecutive trading sessions through last Friday, including two in which stock prices rallied, new lows in individual issues exceeded the number of new highs—in this respect the worst performance since the early days of the advance from the low point of last October.

Notable also is the shrinkage in share turnover throughout the corrective phase to date, including the rally periods. Indeed, in the final session last week, with the industrial average up about 3 points, volume was the lowest since early last January. Whether temporary or not, there has been a large-scale movement of investors and speculators to the sidelines. Many of the previously favored "glamour" stocks have fallen out of bed and it is not clear whether and when adequate alternative leadership will develop.

The movement was downward, of course, over the past fortnight, taking industrials back to around the mid-April level, rails to a point that was reached on the upside as far back as last February. Following a further sag through last Monday, there was a sizeable Tuesday rally, with subsequent movement indecisive. At the Monday low, nearly a fifth of the prior rise had been given up by industrials, and over two fifths by the rail average. Whether the Monday lows will hold is conjectural, and the same can be said for a summer rally.

What to do? Assuming no all-out war, there are further potentials in selected stocks. Given all-out war, there is no sure haven for people—or for money. So you might as well keep money in satisfactory stock holdings. You will find it harder than in some time to profit on new buying.—Monday, June 26.

EXPOSÉ of . . .

ILLICIT PRACTICES DISTORTING STOCK PRICES and UNBALANCING the MARKET

By WARD GATES

- **The artificial character of the market as a result of wash sales — fictitious buying and selling orders from abroad**
- **Various avenues used to debase the 70% margin requirement . . . factors that finance traders on 10-15% margin**
- **Where enough is not being done to stop these illicit practices — that can endanger the standing of the entire financial community and the stock exchanges**
- **Its serious impact on the buyers of stocks — particularly the newcomers avid for profits**

IN the May 6th issue of The Magazine of Wall Street we detailed a picture of the deteriorating quality of leadership in the stock market. Although the evidence was conclusive, we were able to point out that the impact of this speculative activity was small when measured against total market values, and hence need not be a source of major concern.

But there exists another form of deterioration in the stock arena that is far more serious and could, if left unchecked, bring the market crashing down around our ears. This is the deterioration in the moral fiber of many peripheral operators, who are bringing back some of the most unsavory practices of the Twenties, as well as some new and more subtle forms of deception—and even fraud.

Bare Warnings Insufficient

Mr. Keith Funston, President of the New York Stock Exchange, has correctly issued warnings against uncritical speculation in new issues or upon the basis of ill-founded tips, for he recognizes that it is the greed and avariciousness of segments of the investing public which allows the manipulators, the pool operators and the tipsters to ply their nefarious trade.

Warnings, however, are of limited value unless

some of the practices are detailed so that the average investor can recognize them when they appear—and unless concrete action is taken to put a stop to the many illegal and half-legal abuses which beset the market today.

In fact, they lend a fictitious aspect to market volume and temporary distortions in the averages, which disrupts the thinking and forward planning of genuine investors, which can entail huge losses.

Investigations will get underway soon by both the S.E.C. and a committee of Congress to determine the extent to which undue manipulation of stock prices is being practiced on the major exchanges, especially on the American Stock Exchange, where one specialist firm was recently expelled because of evidence unearthed by the S.E.C. But many other practices also need disclosure, if the excellent reputation of the financial fraternity is to be maintained, and if we are to avoid a repetition of the disillusionment that followed on the heels of the Pecora investigation of thirty years ago.

Hidden Deception

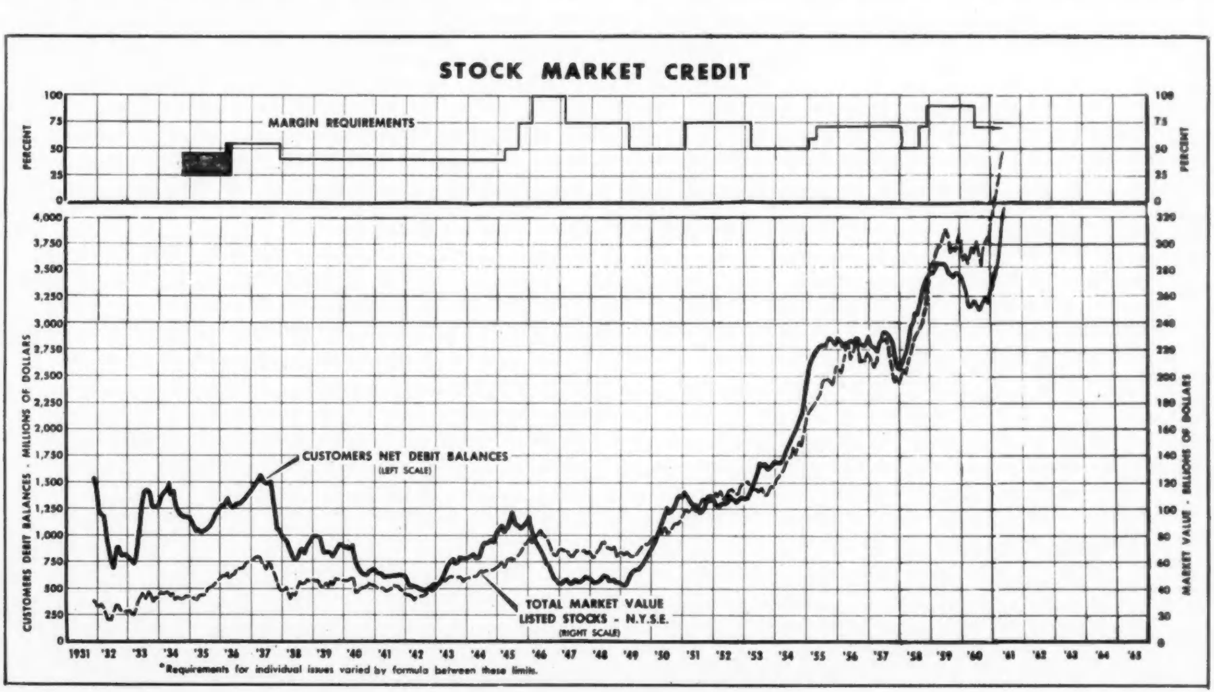
Wall Street today is a thoroughly regulated industry. The S.E.C., within the bounds of its budget and the size of its staff, does a noteworthy job. In addition, the New York Stock Exchange is probably the best example extant of enlightened self-regulation in the interests of both the public and the well-being of the vast majority of ethical brokers. But on the periphery can still be found individual operators and practices that can tar the whole field with one black brush. One example—which is probably not illegal although it is certainly deceptive—serves to illustrate the many methods used to circumvent the rigid rules of the Exchange, the S.E.C. and the Federal Reserve Board. Margin requirements today are 70%, which means that the buyer of a listed stock must put up $700 of his own money for every $1,000 worth of stock he buys. His broker can send him the other 30% at a reasonable rate of interest. The first and easiest way of evading this requirement is to take good listed stocks to a bank and borrow more than 30% against such excellent collateral. The banks are, to be sure, forbidden to make such loans if the purpose is to use the proceeds for further stock purchases. *But* the borrower may tell the bank that he wants the money to finance a new home, his business or an insurance policy, in which case the bank may lend as much as it deems prudent. If the borrower then uses the funds for stock purchases, the bank is not responsible, since it can hardly be expected to police the use of all the funds it lends.

Evading the Margin Requirements

Banks, however, are responsible institutions, and often refuse loans where they suspect the borrowers' intentions. Moreover, they are answerable to the Federal Reserve Board which establishes the margin requirements. But other financial operators are subject to no such control. Anyone can lend money in our free enterprise society. Hence, factoring houses have sprung up in the Wall Street area to provide funds for hungry speculators who want to gamble on a far more daring basis than margin requirements allow.

The factors will often lend up to 100% of the proceeds of a stock transaction, at extremely high rates of interest. The factor buys the stock for the speculator, so that actual margin requirements are ostensibly met. The speculator protects the lender by buying options to sell the stock at or near the purchase price in case his judgment proves wrong. An illustration will make the process clearer.

Mr. Jones gets a tip that the XYZ Corporation will split its stock within the next thirty days, and assumes that the stock will rise from $50 to $60 a share on the strength of the news. He sees a chance to make a killing—but he doesn't have enough



money—perhaps only enough to buy 100 shares. Therefore, he arranges for a factor to buy him 1000 shares ($50,000, at 20% interest) without putting up any money of his own. Since the factor will actually own the shares, and is not interested in speculating on his own account, Mr. Jones must use his $5,000 to buy *Puts* for 1,000 shares of stock. These Puts are options to sell the stock to someone else at today's price if it should decline in price.

If the hoped-for price advance fails to materialize Jones loses his $5,000 plus roughly $900 in interest on his one-month loan. If the stock actually does rise to $60 he stands to make $10,000, or 200%, on an outlay of only $5,000 of his own money.

Over-the-Counter Market Weakened

This type of operation is the modus operandi of much of the excessive trading in the over-the-counter market, but the practice is also widespread in listed securities. Furthermore, many brokers willingly work hand-in-hand with the factors, since the large transactions are a big source of commission income.

Recently, several factoring companies became over-extended, and just walked out of several millions of dollars worth of transactions, causing big losses for some brokerage houses and virtually bankrupting certain of their clients. Although the factors will be prosecuted for fraud the damage has been done. More serious is the probability that the recent excessive weakness in the over-the-counter market stems from the selling of frightened investors who decided to cancel their deals with other factors.

Speculation Even in American Telephone

The factors provide an obvious abuse. Not so obvious but perhaps just as damaging was the practice many brokers used to induce unwary investors to buy such a sound stock as A.T.&T. Margin rules allow stock which is offered on "rights" to be bought with only 25% margin. The investor must first buy the rights to subscribe, and then put up 25% of the subscription price in either money or collateral. The recent A.T.&T. offering, however, was at $86 per share, while the stock was selling at about $120—an unusually wide discrepancy. At that price, the value of 100 shares at market provided enough collateral to cover the 25% subscription requirement fully. Hence, investors were encouraged to buy the stock by merely putting up enough money to buy the rights.

Now many of them are paying the penalty. A.T.&T. was driven too high by widespread use of this gimmick. Since the offering has been completed, the price of the stock has been declining, forcing brokers to ask their clients for enough margin to cover the loss in value. Many buyers who thought they were getting something for nothing are now being obliged to sell their stock, and such sales are forcing the price down even further. The process of additional margin calls will continue until all of the "innocents" have either sold A.T.&T. at a loss or have been forced to liquidate other stocks to meet their margin calls on Telephone. We suspect that the unsettled state of the market in recent weeks can be largely attributed to this one factor.

The Pattern of Deception

Getting around margin requirements is an abuse, but at least it depends for its operation on the willing compliance of the individual speculator. Other deceptions currently being practiced deliberately intend to pull the wool over his eyes. Such practices are particularly prevalent in the new issue market, where the rapid rise of some stocks has attracted a whole coterie of inexperienced newcomers who fondly imagine that they have found the pot at the end of the rainbow.

Every one knows by now that an issue in scarce supply is potentially "hot." Widespread promotion will further whet the public's appetite for the stock, while a knowledge that the shares will be hard to get increases the eagerness to obtain even a small amount. Clever manipulators play on the fever, sometimes by skillful manipulation of human psychology, and at other times through deliberate fraud. One underwriter, for example, is under indictment for deliberately placing large percentages of new issues in his own family accounts, thus limiting the amount available to the public. When the stock was bid to high prices, he carefully fed out his hoarded supply. This is crude manipulation. Far more subtle is the practice of issuing a small stock offering through a large number of dealers. Although there may be no overall shortage, each dealer, with only a small supply to distribute to his clients, is forced to ration his allotment. An illusion is therefore created that the stock is hard to get, which only increases the eagnerness to obtain some.

On the strictly illegal side is an even more reprehensible practice. Some underwriters, seeking to get a reputation for floating really fast-moving securities, give favored treatment to an inside group of investors who agree to buy specified amounts at the offering price, *but also at stepped up prices above the offering.* What happens, of course, is that the artificial demand keeps driving the price higher and higher until the public finally puts the issue "in orbit". At that point, all of the insiders can close out their transactions with ease.

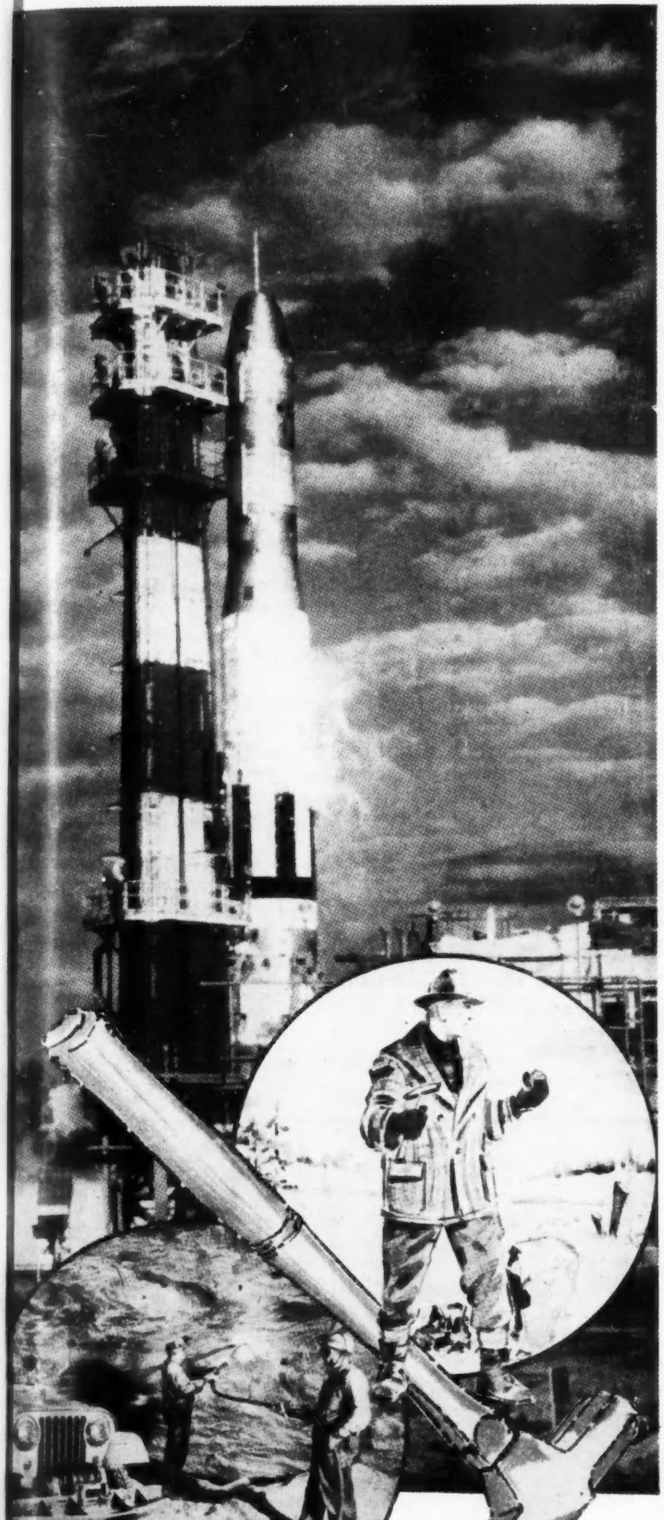
Misleading Changes of Name

Deception in the new issue market, however, is not confined to brokers and underwriters. Scores of small companies in prosaic industries have sought the magic of "going public" by changing their names to give the impression that the business relates to one of the new and exciting fields. A typical example is an old, small, barely profitable sheet metal company that successfully sold its stock to the public after changing its name to include the word "scientific". It is still the same old horse, but an ignorant public bid avidly for the stock.

To be sure, there is nothing illegal about a name change, and the facts are available in the prospectus. But clever operators know that most people don't read these formidable documents—and few of those who do actually understand them. In one recent case, a "hot" new issue collapsed after the company failed to obtain a patent on which its entire future was based. The underwriter found out later that most of his disgruntled clients had no idea of what "patent pending" meant.

How Much Protection is There?

The regulatory authorities are doing their best to stamp out many of these abuses, but their hands are tied by inadequate investigating staffs as well as by the unwillingness *(Please turn to page 445)*



OUR STRATEGIC METAL STOCKPILE...

FOR DEFENSE — FOR ECONOMIC GROWTH

— *Where do we stand today?*

By MORRIS GOLDFISCHER

NOTE — So much has been said about the shortages of strategic metals . . . our dependence on other countries for them . . . dangers to our sources of supply from enemy submarines . . . that we are glad to publish this authoritative and up-to-date presentation of the status of our strategic stockpiles in four categories — which shows the extent of our preparedness and how basic and maximum requirements have been taken care of to meet any surprise attack on our supply lines and war needs for three years. — EDITOR

IN this age of shrinking dimensions, a concept of self-sufficiency seems peculiarly out of tune with the times. Yet such an objective, in the field of metals, at least, is being actively pursued, and has come to play a major role in America's security program.

Would U.S. defense industries be crippled if the enemy severed our overseas metal supply lines? Does the loss of Cuban nickel and cobalt present a threat to the security of the United States? What are the supply prospects for modern space-age metals, vital for satellites, missiles and jets?

Such are the questions that keep bobbing up with each turn of political developments to continuously test the adequacy of our emergency preparations. Fortunately the answers are reassuring. In an emergency, the U.S. would be in a strong position indeed as far as metal supplies are concerned.

What It Adds Up To

The backbone of the U.S. preparedness posture in metals is a federal stockpile of essential material designed to meet the basic needs of a World War II type of combat extending over a 3 year period. The **strategic metal cost of such a combat?—Roughly the \$86 billion invested in amassing the total stockpile inventory. This figure incidentally would have been considerably higher had not the original plan for a 5 year hoard been whittled down in 1958 to a three year requirement.**

► In actual fact, strategic materials have been procured under various laws which had the effect of creating, not one, but four, distinct stockpiles.

► The nation's number one hoard, valued at a cost of $6.1 billion, at last count, is the National Stockpile of Strategic and Critical Materials.

► Next in size, is the stockpile built up as a result of the Defense Production Act of 1950, a measure designed primarily to encourage domestic output of essential raw materials. This reserve had a price tag of $1.5 billion at the close of April.

► Directly behind in importance, worth $884 million as of April 30, with an additional $67 million in transit, is the supplemental stockpile accumulated by bartering surplus agricultural commodities for foreign strategic materials. . . . Rounding out the stockpile inventory is a small but important hoard which cost an approximate $9.5 million to accumulate.

This supply is receiving considerable publicity and is the envy of the International Tin Council at the moment, with prices of the metal soaring and no supplies remaining in the buffer stock to stabilize them.

While itemized details on the National Stockpile are withheld as classified information, combined figures from the other inventories show the following materials leading in cost value:

Aluminum, bauxite, etc., 7,800,000 tons at a cost of $513,000,000; manganese (and ores), 5,500,000 tons at a cost of $364,000,000 and $84,000,000 pounds of tungsten costing $341,000,000.

Basic and Maximum Objectives

The National Stockpile established two criteria in attaining its goal of sustaining the U. S. through a three year war—a ***basic objective*** which assumes the availability of a certain quantity of materials from foreign sources, and a ***maximum objective*** which would provide essential requirements if all outside supplies were cut off.

A role call of strategic metals of which quantities on hand at the beginning of the year equalled or exceeded maximum objectives, would sound like the recitation of the alphabet, the list runs from "A" to "Z"; from aluminum, bauxite, beryl, cadmium, chromite and cobalt, through lead, magnesium, manganese, molybdenum and nickel, to platinum, quicksilver, tin, vanadium and zinc.

A small list of minor metals, headed by antimony, bismuth, refractory grade chromite, chemical grade manganese type "B" ore, and selenium, have not, as yet, attained the levels established under the maximum goal program.

The incomplete supply of these materials is in no way indicative of any unusual strategic value or availability shortage. Just the reverse. The gap is a reflection of the relative insignificance of these materials in the minds of defense officials, who consider their presence insufficiently essential to warrant the outlay of new funds for the purchase. Consequently, maximum objective in these materials are expected to be filled gradually through the barter program.

Not only are most stockpiles completed, but in many instances, they are substantially in excess of objectives.

What was once a shortage problem has been subsequently turned into a surplus headache. Albert Thomas, Chairman of the House Appropriations Subcommittee, reviewing the 1960 allocation to the General Services Administration (which runs the stockpile program) neatly summarized the situation by remarking, "It must be obvious to everybody that stockpiles for a good many of these items are running out of everybody's ears."

The happy state of American preparedness was further highlighted by the GSA administrator, himself, Mr. Franklin G. Floete, in a response to a

Percentage Distribution of Imports of Principal Metals Consumed in the United States, by Country Group of Origin [1]

Commodity	Canada and Mexico 1958	Canada and Mexico 1959	East and South Pacific [2] 1958	East and South Pacific [2] 1959	Other Western Hemisphere 1958	Other Western Hemisphere 1959	Other free world 1958	Other free world 1959	U.S.R.R. bloc [3] 1958	U.S.R.R. bloc [3] 1959
Ferrus ores, scrap, and metals:										
Iron (equivalent) [4]	29	37	17	17	44	41	10	5	—	[5]
Manganese (content)	8	9	2	2	26	25	64	64	—	—
Chromite (Cr_2O_3 content)	—	—	4	—	3	3	93	92	—	5
Cobalt (content)	7	3	—	—	—	—	93	97	—	—
Nickel (content)	77	79	—	—	21	18	2	3	—	—
Tungsten ore and concentrate (W content)	10	1	33	32	49	21	8	46	—	—
Other metallic ores, scrap, and metals:										
Copper (content)	29	31	42	44	4	3	26	23	—	—
Lead (content)	33	39	45	38	2	1	20	22	—	—
Zinc (recoverable content)	68	65	18	21	1	[5]	13	14	—	[5]
Aluminum (equivalent) [6]	11	6	[5]	[5]	86	85	3	11	—	—
Tin (content)	[5]	1	[5]	1	10	[5]	90	98	—	—
Antimony (recoverable content) [7]	19	21	10	13	[5]	2	70	64	—	—
Beryl ore (BeO content)	—	—	—	—	36	66	64	34	—	—
Cadmium (content) [8]	78	78	7	3	—	—	16	19	—	—
Mercury	41	12	4	5	[5]	—	54	83	—	—
Platinum-group metals	18	25	[5]	[5]	3	3	65	59	14	13
Titanium concentrates:										
Rutile, ilmenite and slag (TiO_2 content)	33	43	14	17	[5]	—	53	40	—	—

1—Data are based on imports for consumption.
2—West coast of South America (Salvador, Chile, Bolivia, Peru, and Ecuador), New Zealand, New Caledonia and Australia.
3—U.S.S.R., Bulgaria, East Germany, Albania, Czechoslovakia, Hungary, Estonia, Latvia, Lithuania, Poland, Rumania, China, and North Korea.
4—Includes iron ore, pig iron, and scrap.
5—Less than 0.5 percent.
6—See footnotes 12 and 14, table page 413.
7—Excludes antimony from foreign silver and lead ores.
8—metal and flue dust only.

Supply of Principal Metals in the United States

Commodity	Net supply[1] 1958	Net supply[1] 1959	Change from 1958 (percent)	Primary shipments[2] 1958	Primary shipments[2] 1959	Secondary production[3] 1958	Secondary production[3] 1959	Imports[4] 1958	Imports[4] 1959	Exports as a percent of gross supply 1958	Exports as a percent of gross supply 1959
				Components as a percent of gross supply (gross supply = 100)[2]							
Ferrous ores, scrap, and metals:											
Iron (equivalent)[5]	[1] 84,526	02,977	+10	[6] 48	40	[4] [7] 29	[7] 33	23	27	3	2
Manganese (content)	1,329	1,272	— 4	14	11	—	—	[8] 86	[8] 89	[9]	1
Chromite (Cr_2O_3 content)	602	674	+12	10	6	—	—	90	94	[9]	4
Cobalt (content)	[6] 20,336	24,418	+20	[6] 24	12	[10] 2	[10] 1	[6] 74	87	—	—
Molybdenum (content)	30,284	32,656	+ 8	100	100	—	—	[9]	[9]	29	37
Nickel (content)	108	131	+21	[6] 14	11	4	4	82	85	[9]	—
Tungsten ore and concentrate (W content) ... Short Tons	5,135	4,810	— 6	34	36	—	—	[8] 66	[8] 64	2	1
Other metallic ores, scrap, and metals:											
Copper (content)	[6] 1,483	1,718	+16	52	44	22	25	[8] 26	[8] 31	21	9
Lead (content)	[6] 1,237	1,107	—11	[6] 22	23	[6] [11] 32	[11] 41	[6] [8] 46	[8] 36	[9]	[9]
Zinc (recoverable content)	[6] 1,067	1,066	[9]	[6] 39	39	6	7	[8] 55	[8] 54	[6] [9]	1
Aluminum (equivalent)[12]	[6] 2,353	2,505	+ 6	[13] 12	[13] 14	3	3	[14] 85	[14] 83	[14] 3	[14] 6
Tin (content) ... Long Tons	59,252	66,827	+13	—	[9]	23	20	77	80	2	1
Antimony (recoverable content)[15]	[6] 36,591	40,237	+10	[6] 5	3	[6] [11] 53	[11] 50	[6] [8] 42	[8] 47	[9]	[9]
Beryl ore (BeO content) ... Short Tons	5,062	8,366	+65	9	4	—	—	91	96	—	[9]
Cadmium (content)[16] ... Short Tons	5,064	4,667	— 8	37	33	—	—	[8] 63	[8] 67	5	9
Magnesium (content)	34,824	35,928	+ 3	[17] 86	[17] 83	14	16	[9]	1	1	4
Mercury ... 76 Pd. Flasks	[6] 73,186	65,273	—11	[6] [17] 51	[17] 47	[6] 7	7	[6] [8] 42	[8] 46	2	2
Platinum-group metals....Thou. Troy oz.	[6] 719	1,130	+57	2	1	[18] 11	[18] 12	87	87	6	3
Titanium concentrate:											
Ilmenite and slag (TiO_2 content)	517	581	+12	57	59	—	—	43	41	—	—
Rutile ... Thou. Troy oz.	35	25	—26	5	27	—	—	95	73	3	15

1—Net supply is sum of primary shipments, secondary production, and imports, minus exports. Gross supply is total before subtraction of exports.
2—Primarily shipments are mine shipments or mine sales (including consumption by producers) plus byproduct production. Shipments more nearly represent quantities marketed by domestic industry and as such are more comparable to imports.
3—From old scrap only.
4—Imports for consumption except where otherwise indicated; scrap is excluded wherever possible both in imports and exports but included are all other sources of mineral through refined or roughly comparable stage, except where commodity description indicates earlier stage. Exports of foreign merchandise (reexports), if any, are included when imports are general.
5—Iron ore reduced to estimated pig-iron equivalent; reported weights used for all other items of supply.
6—Revised figure.
7—Receipts of purchased scrap.
8—General imports; corresponding exports are of both domestic and foreign merchandise.
9—Less than 0.5 percent.
10—Consumption of purchased scrap.
11—Includes recovery from old scrap, dross, and residues, which are a part of so-called new scrap.
12—Includes 87.5 percent of bauxite mine production (rather than shipments) and imports, and 92 percent of alumina imports, both converted to estimated aluminum equivalent.
13—Mine production of bauxite.
14—Includes ingot equivalent (weight X 0.9) of imports of scrap, largely scrap pig.
15—Based on recovery from all forms a byproduct from domestic and foreign sources. In short tons.
16—Primary shipments are estimated as a percentage of total primary production of metal, decreasing with increasing imports of lead and zinc, imports are represented by sum of remaining percentage of such production plus imports of metal.
17—Primarily production of metal.
18—Recovery from both old and new scrap.
19—Exports of foreign merchandise (that is, reexports) are included.
20—Estimated by adjusting production, excluding byproduct, for changes in producers' stocks.
21—For pyrites, includes sulfor content (48 percent) of production.

question put to him by Mr. Thomas.

"You have enough material to fight a five, six, or ten year war, have you not? And your planners have cut that period to three years, have they not?" The reply—"That is right, at present."

The testimony regarding the adequacy of American metal reserves has been so amply documented by government officials and industry authorities, that there would appear little valid basis to support any fear of an emergency metal shortage. The fear, if it does exist, is of a far different nature.

The bogy here is the disposal problem, and the potential threat that such huge reserves present to the orderly marketing of the various commodities. As an allaying feature, the stockpile program came equipped with built-in safeguards designed to prevent just such disruptive possibilities. Materials accumulated in the National and Supplemental stockpiles generally cannot be sold without the consent of Congress, while DPA holdings cannot be disposed of in a manner that would prove detrimental to the market situation. A corporate sales executive, however, oftentimes derives small solace from such a provision, as too frequently his concept of a market detriment bears little resemblance to the government's.

Plight of U.S. Industry

Of course the question of the adequacy of the metal stockpiles is apart from the necessity of maintaining a strong domestic mining industry as a mobilization base. In this regard, spokesmen for U.S. producers contend that we have become a "have-not" nation in strategic materials because of our reliance upon imports.

This viewpoint was emphasized by the chairman of the Strategic Materials Committee of the American Mining Congress, in an address to that society last October. The chairman attributed "the almost complete elimination" of the U.S. strategic mining industry to lower wage costs abroad, inadequate tariffs and "the apparent policy of our government in Washington to permit the complete elimination of this industry as long as the cold war continues."

This position has attracted some strong supporters in Congress, particularly among the Western mineral bloc. Queried recently by Walter Gerson Associates (market researchers in Washington), Rep.

Wayne Aspinall (Dem., Colo.), chairman of the House Interior Committee, said: "In an atomic war, our stockpiles, even if adequate, may be inaccessible. We must develop a domestic industry with the incentives to find new sources of metals such as chromite, 95 per cent of which is imported."

Opponents of the Western States' self-sufficiency stand are not without adequate spokesmen. Royce A. Hardy, then Assistant Secretary of the Interior, told the House Interior Committee in July, 1959, that "it is not in the national interest to pursue the course of self-sufficiency (in minerals) beyond prudent and reasonable economic limits." He added: "The concept that, irrespective of cost, the American economy should encourage and support maximum domestic production for all minerals and metals appears unrealistic and impracticable. This concept cannot be reconciled with the system of free enterprise, which we are endeavoring to promote and maintain." While the viewpoint of the present administration has not yet been closely defined it appears most likely that the Kennedy government will endorse the latter position.

Concern on Cuban Metals

The recent turn of political events has sharpened the spectre of mineral supply inadequacy. Concern has been voiced that Castro's takeover of the American nickel and cobalt facilities in Cuba presents a threat to domestic consumers of these metals. While the blow to U.S. financial interests—has been substantial—to the tune of $100,000,000 of taxpayers' funds that went into the Nicaro nickel plant and another $61,000,000 of Freeport Sulphur Company funds that went down the drain when the Moa Bay plant was expropriated the damage to U.S. supply lines was not nearly as serious. According to estimates presented in the American Metal Market on June 5, 1961—our metal users may be somewhat inconvenienced but certainly not crippled.

In a 1960 year-end statement, Henry S. Wingate, chairman, International Nickel Co. of Canada, Ltd., pointed out that nickel producers of the free world continued to increase their productive capacities in 1960 and estimated that, before the end of 1961, the total nickel capacity of the free world, exclusive of Cuban sources, would approach 600,000,000 pounds annually. Canada will account for more than 75 per cent of the free world's nickel output capacity by the end of this year.

In 1960, the U.S. consumed 43 per cent of the free world's nickel supply and Canada only 2.5 per cent, for a combined total of 45.5 per cent. Thus, with 75 per cent of the free world's output capacity available in Canada alone, and with the U.S. and Canadian consumption running only 60 per cent of the available supply, a comfortable margin of safety is maintained.

The Cobalt Situation

Developments in Cuba and the Congo are also a growing worry to domestic consumers of cobalt. Freeport Nickel would have currently been producing more than 2,000 tons of cobalt annually in Cuba—a supply now completely lost to the U.S. Cobalt production from the Congo (9,374 tons last year or 53 per cent of the free world's output) has been the traditional major U.S. supply source. Congo output was disrupted but is now reported normal. However, even if combined Cuban and Congo supplies were cut off completely, the U.S. would be in little difficulty. Dr. F. R. Morrall, of the Cobalt Information Center, estimates "conservatively" that there are about 27,000 tons of cobalt in the U.S. stockpile," enough to supply the U.S. for more than five years at present consumption rates."

Dr. Morrall last summer told the Permanent Magnet Producers Association in Chicago:

"Even if the worst imaginable (and now unforeseen) world events should cause world cobalt production to drop drastically for the next few years, we have an abundant supply of this metal in surplus stocks and stockpiles to feed industry at its present rate. In the meantime, plants now closed in the United States and Canada could be reactivated. If demand rises, both United States and foreign producers would have an interest in using their technical know-how and increasing their production or installing new facilities to supply the needed metal. A national inspection of this supply picture should allay any concern now felt by cobalt consumers. It is my own belief that the Cuban and Congo crises offer world politicians much more genuine cause for concern than they do United States consumers of cobalt."

Space-Age Metals

The space age advent has swung the spotlight to the so-called modern metals needed especially for their high-temperature properties. Among these metals are molybdenum, columbium-tantalum, tungsten and zirconium. Here's how we currently stand on these materials:

Molybdenum—Used for missiles, high-temperature alloys, etc. Federal stockpiles equal or exceed *basic* and *maximum objectives.* Free world output in 1960 was about 75,000,000 pounds, of which over 90 per cent was produced in U.S. Richard J. Lund, assistant technical director of Battelle Memorial Institute, told the Society of Automotive Engineers in Detroit on March 16, 1961: "Supplies of this metal right here in the U.S. are more than ample for any foreseeable expansion for many decades in the future at prices around present levels."

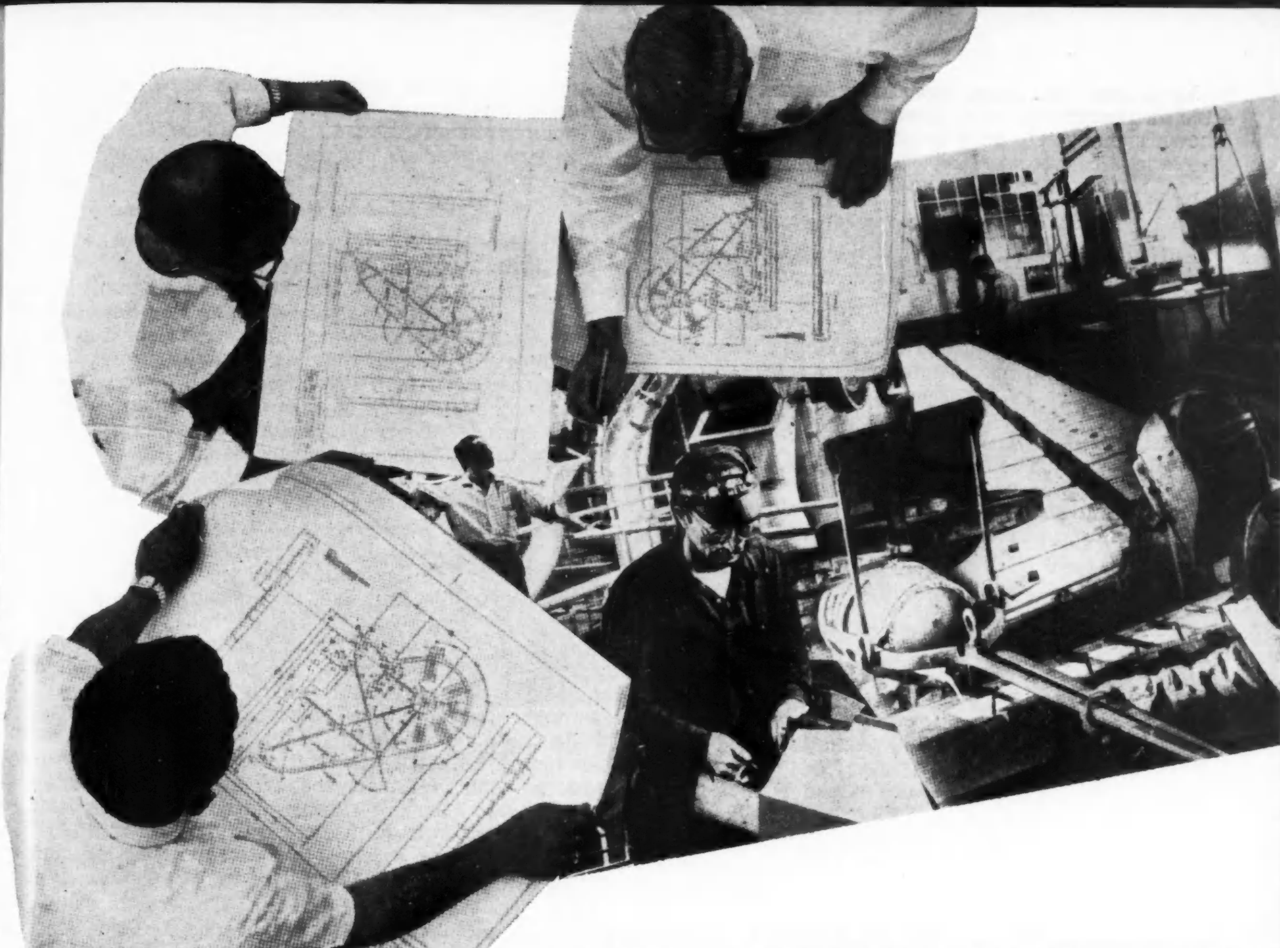
Columbium-Tantalum—Finding increased application in jet engines, gas turbines and nuclear elements. Federal stockpiles *equal or exceed objectives.* U.S. Materials Advisory Board concluded that columbium resources are adequate to support a manyfold increase in mill product requirements and that tantalum resources will support an increase up to five times present production.

Tungsten—Used in high-temperature alloys. Stockpiles *equal or exceed objectives.* U.S. production runs between one-fourth and one-half consumption requirements. Output from new operations in the Canadian Northwest, with very large reserves, is scheduled for 1962, and will help assure future supplies.

Zirconium—Growing use in nuclear field. At the end of 1960, the Government stockpile inventory stood at 16,533 tons of zirconium ore and 14,620 tons of zircon ore. GSA last year sold some materials in stockpile which were in excess of needs. Consumers also are carrying large inventories.

Preparedness Formidable

Summing up, the metals preparedness position of the U.S. is indeed a *(Please turn to page 451)*



HOW CONSCIENCELESS LABOR LEADERS ARE CRIPPLING OUR ECONOMY

— Affecting civilian and defense jobs

By McLELLAN SMITH

— This careful documenting of labor abuses clearly shows why new legislation is essential

SAMUEL GOMPERS would turn over in his grave if he listened to the obtuse reasoning of today's labor leaders, whose policies seem more designed to upset the economic balance in this country than to contribute to its welfare—so that they can enlarge their personal power and, in many instances as shown by the McClellan Committee, even use union funds to feather their own nests.

At the moment, their demands do not take into consideration the realities of the world political crisis in which we are involved, when they throw out of work about 50,000 people on the waterfront—nor was any consideration given to the effect their intransigence is likely to have on the campaign to bring tourists to this country, in a special effort to reverse the balance of payments which has been draining our gold these past several years.

It should be clear that if the union bosses should bludgeon shipping lines into banning employment of foreign seamen at their much lower union scales of pay—and impose the vastly higher U.S. union rates—rather than creating 20,000 additional jobs, they would quickly drive American shippers into selling vessels made unprofitable by these maneuvers to other foreign companies. Not only would this fail to build jobs, but it would deprive the country of this backlog of shipping which might be vital to our security and operations in war time.

The thoughtless suggestion that the government increase subsidies to shippers to pay the difference in wages is absurd because it would simply saddle the taxpayer with hundreds of millions of dollars of added costs at a time when we are striving to keep from adding to the national debt.

For a long time now, many labor leaders have acted as though they were above the law, and have shown themselves to be without conscience, even to the extent of encouraging strikes which hinder our defense effort in the face of the present crisis.

Labor's Early Objectives Forgotten

Further back in the past, Labor has, to be sure, fought an economic battle that has been advantageous to the country. It has raised wages, living standards of its own members and brought about improved safety conditions for industry that have been beneficial both to labor and to those who had to pay the bill for industrial accidents. Admittedly, organized labor can claim many entries on the black side of the national ledger.

But to the writer's best recollection, it has been more than two decades since Labor has made any real contribution to the nation's economy. Within that span, on the contrary, organized Labor has done great damage.

Far-Reaching Impact of Nation-Wide Strikes

► **Steel Strike**—Of recent occurrence was the 100-day strike of the *Steel Workers*. The economic gain to the workers will take seven years to offset their losses as they idled on picket lines. And, as the strike slowly moved toward a settlement, many thousands of people—perhaps as many as 500,000—saw their incomes severaly reduced; in some instances lifetime savings were wiped out. More on this later.

► **Maritime**—As this article rolls through the author's typewriter, a maritime tie-up is idling ocean shipping on the Atlantic, Gulf and Pacific Coasts. It is not an economic dispute, but one in which the forces of labor would dictate operational methods of the shipping companies. Today some 70,000 mariners are without work or income, and that is far from good for perhaps 225,000 of their dependents. An early estimate puts cost of the stoppage at $3,000,000 a day for the shipping companies. In the meantime, many thousands of workers—thousands more than belong to the maritime unions—are being rendered jobless because their employers cannot operate without transportation to foreign markets, or because raw materials and merchandise cannot reach our shores.

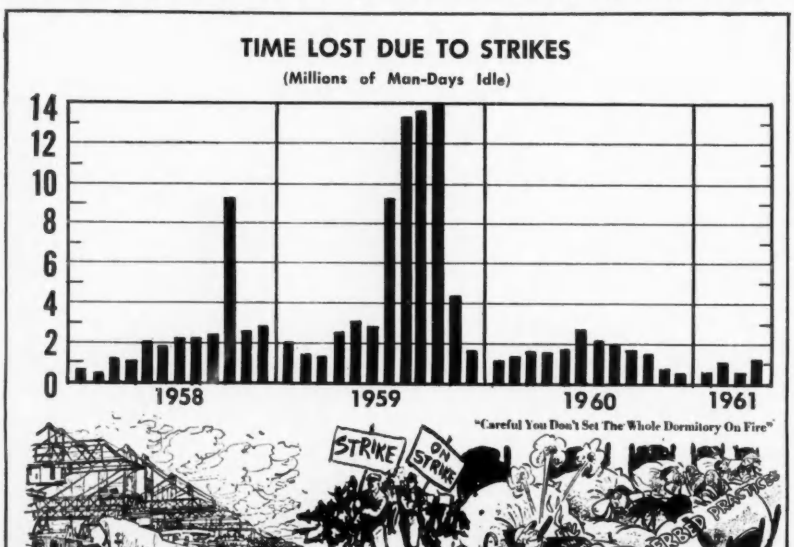
Thousands Idled by Handfuls of Strikers

► **Harbor Strike**—It was not many months ago that about 650 harbor workers of New York City tied up that port, blocking the import of food, fuel and other daily necessities of life. Further, they threw out picket lines which prevented over 100,000 commuters from reaching their daily work, and blocked essential food shipments to all of New England. If the demands of 650 tugboat men, in the master minds of organized Labor, are superior to the health and general welfare of no less than 20 million people, then organized Labor is utterly devoid of conscience.

► **Transport Workers**—Also within recent memory is the strike of 12,000 members of the Transport Workers Union which completely shut down the Pennsylvania Railroad, taking more than 70,000 non-striking employees off the payrolls, idling more thousands who worked for industries served by the carrier—even threatening the poultry industry of one area with extinction. Other thousands of the Pennsy's patrons were seriously inconvenienced, while mail service was disrupted in an area embracing 40 million of the nation's population. Labor leaders with a conscience would certainly have thought twice before calling a work stoppage that was not economic in nature. Surely the rights of 40 millions were superior to any real or fancied rights of a mere 12,000!

► **Steel Workers** — Reverting to the costliest strike in modern times, that of the United Steel Workers in 1959, one has difficulty in finding evidence of conscience on the part of the USW leadership. Not only were nearly 300,000 union members idled for 116 days for pay losses that will take several years of increases "won" to off-set, but even greater numbers of rail workers, coal miners, auto workers and employees of other industries, dependent upon steel as a basic raw material, were idled, their families—even the corner grocers—suffering physical privation and distressing economic losses. The steel stoppage not only caused great personal discomfort and monetary losses for countless thousands not directly involved in the dispute, it hit the Treasury Department for hundreds of millions in lost revenue and slowed down our defense effort in no minor degree. No mention is made of losses to stockholders lest the author be accused of being a front for "big" business.

Steel worker leaders, with an awareness of the harm to be done, if possessed of consciences, would have thought twice before precipitating so disastrous a stoppage. Those leaders are not dumbbells. They have knowledge of economics and the importance



of steel to the national economy and the national defense. With this knowledge, it is not an unfair assumption that their lack of conscience was instrumental in preventing sensible negotiations to keep the economy on an even keel, the defense industries working at "full blast".

Strikes Like These Take A Heavy Economic Toll

Interference With the Defense Program

► **Defense** — Thus far, the writer has looked mainly at the economic results of conscienceless acts by the leaders of organized labor. Let's have a look at the defense picture, and that alone. To be found in this instance is not only a lack of conscience, but acts approaching moral—if not legal—treason. The writer is referring particularly to strikes at various missile bases, especially at Cape Canaveral, Fla. What is written of "The Cape" is applicable in considerable degree to other missile installations. But Canaveral is the keystone of our missile structure. It is there that we prove the missiles; there that we have launched one astronaut into space, and expect to launch others; and it will be from there that we may send a few hardy adventurers forth in an effort to reach the moon. But what is organized Labor's evidence of conscience in its operations at this most vital of all our modern defense installations?

Bearing in mind that we are engaged in a cold war—one that could flare white-hot at the push of a button—we discover that organized Labor has used its monopoly powers, financial and political, to hamstring our missile efforts for mere self-aggrandizement. **The sordid story, as developed by the Permanent Investigating Subcommittee of the Senate Operations Committee, chairmanned by John L. McClellan (D., Ark.), is a classic example of the conscienceless near-treason of some sections of organized Labor.**

1—Our missiles and space programs, upon which our survival in the struggle with world Communism depends, have been deliberately and callously delayed for more than four years by labor leaders who have placed greed above their devotion to and the safety of our country.

2—Wildcat strikes, work stoppages, deliberate slow-downs, featherbedding and a planned policy of low productivity on the part of many unions and workers are clearly responsible in no minor degree for whatever gap or delay exists in our space and missile programs.

3—It was demonstrated by ample sworn testimony that many of the Cape Canaveral and other missile base workers—through strikes and other pressure tactics—collected millions of dollars in exorbitant, unnecessary overtime pay in a conscienceless gouge of the American taxpayer. In more than one instance, union workers—ranging from elevator operators to electricians—collected weekly pay in excess of that of the commanding general of the base while doing as little work as possible.

4—In the words of Senator McClellan, "Testimony [before the Subcommittee] shows that we would be at least many months ahead of our present man-in-space timetable had it not been for an incredibly low [and conscienceless] work production output—only 40 percent of normal—by workers at Cape Canaveral, Florida, and a loss of 87,000 man-days of labor there through work stoppages."

5—Competent testimony brought out at the McLellan hearings established that if there had been no union work stoppages at the base—everyone working at full productive capacity, instead of only at 40 per cent of their capability—we could have placed a man in orbital flight many months before Commander Alan Shepard, USN, made a 115-mile sortie into lower space.

How to Aid and Comfort the Enemy

In the meanwhile, as Nikita Khrushchev, head of the world Communist conspiracy (who already thinks he has the world by the tail), threatened to "bury" us, the labor bosses permitted, perhaps encouraged, wildcat strikes, jurisdictional disputes, and work stoppages at Cape Canaveral and other of our Intercontinental Ballistic Missile sites and test centers; stoppages that have cost our missile program 700 man years of labor.

► Although some of the lost time was regained by the payment of extortionate overtime wages, much of it is forever lost in our desperate race to develop and complete a missiles system that will be an adequate deterrent to the Red aggressor who confidently looks to our downfall. It has long been a tenet of the Communists that the United States can be bled white, either through domestic spending for "give away" plans, or in an arms race with the USSR police state. Skipping the domestic spending angle, we have to admit *(Please turn to page 449)*

Inside Washington

BY "VERITAS"

DISTRUST of the White House mounts. Distrust is a nasty word, but it is possibly justified by those "in the know"—Capital City newsmen, Congressional sources identified with foreign affairs, and the Diplomatic Corps. To "begin at the beginning," two Kennedy campaign pledges were "the best available appointee for the job," and a "free flow" of information from the White House. Skepticism reared its head when G. Mennen (Soapy) Williams, Walter Reuther's friend and 6-term Governor of Michigan, was named as Undersecretary of State for African Affairs. In the area of information from the White House—we got our first news of the Kennedy-Khrushchev Vienna meeting from the foreign press. Later, the British press—after the Kennedy TV report to the nation—told us that Khrushchev laid down a tough, *written* memo of his views on Berlin. All were facts that should have come to the nation direct from the "man in the White House", not from foreign sources. There is further griping that Mr. Kennedy has withheld information on his true physical condition.

WASHINGTON SEES:

The total "welfare state" is less than ten years distant if the Congress continues to enact the New Frontiers legislative program. This is the conclusion — often privately admitted — by Democrats and liberal Republicans close to the White House.

Blame for this unfortunate potentiality is not entirely laid on the doorstep of President Kennedy. Primarily, the responsibility will be that of his advisors — too many of whom want the Socialistic set-up, and adroitly lead the youthful Chief Executive down their chosen paths.

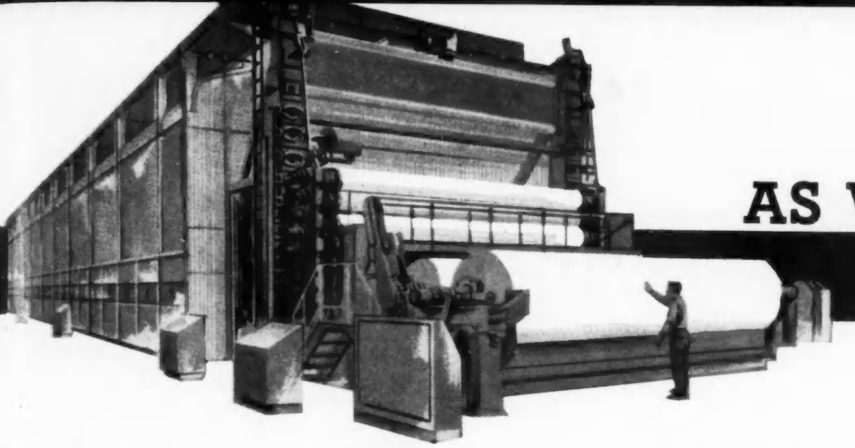
Already extant is the Social Security system which numbers the citizen almost from cradle to grave and the graduated income tax which redistributes wealth through taxation.

Coming up are multi-billion dollar housing and education programs that will be invasions of two fields of personal and local responsibilities — all dictated by a powerful centralized government. To these we add possibilities of Federal dictation of Medicare through Social Security taxation.

Last, but by no means least, on the list is the proposition that the President have the power to raise or lower taxes to adjust the national economy. In between is the proposition that financial aid and retraining of the unemployed be a taxpayer responsibility.

INTRAMURAL feuding, most of it presently concealed from public view, is nettling the White House which may have to "knock heads together." Partially in the open, but more serious than presently realized, is Pentagon "big brass" differences with Defense Secretary Robert S. McNamara who has established tight censorship over public statements by ranking uniformed personnel. The Secretary is determined on strictly civilian control of *all* matters relating to Defense and its policies. The officers simply don't like it and are bitter. There is fear that McNamara's tightened reins may bring earlier voluntary retirement—possibly a few resignations—of officers we can ill-afford to lose in this critical stage of unsettled world conditions and a cold war that can flash white hot with the "push of a button". Other back stage spats in and between other agencies are irritating but not yet of the gravity of the civilian-military rift.

CONSERVATISM of the Sen. Barry Goldwater variety is gaining grass roots strength of proportions disturbing to liberals of both Parties. Although the fiscally irresponsible legislative program of the New Frontier has had relatively easy sailing on Capitol Hill, Congressional mail is revealing a distinct "back home" trend toward the Goldwater philosophies, many writers mentioning the Arizonan's name. Meanwhile, the Senator is in tremendous demand as a speaker all across the nation, especially among collegiate and other youth organizations, members of which will have great influence in the campaigns of '62 and '64. "It ain't good," wryly comment seasoned liberal politicos of both Parties.



AS WE GO TO PRESS

Second Debt Limit Boost Foreseen. The statutory debt limit, recently raised from $293 billion to $298 billion, will have to have a further boost of two to three billion early next year according to the pessimistic forecast of Democratic Congressional sources who lay the blame on on the Administration and the Congress — the former for its extavagant spending programs, the Congress for acquiescing in "entirely too many" White House demands. Admittedly, the gloomy prediction is "iffy," depending upon the possibility of a business upsurge to swell Federal revenues.

Proposed Department Of Consumers (Cabinet Level) On The Shelf. Legislation to create the new executive department (S. 1688) by Sen. Estes Kefauver (D., Tenn.) and co-sponsored by 19 other Democrats and two Republicans, will not reach the hearing stage during the present Session. Senate Government Operations Committee, headed by Sen. John L. McClellan (D., Ark.), has the measure for consideration, but the Chairman, thinking little of the proposal, has pigeonholed it for the remainder of the Session. Privately, he thinks that the consumers are "amply protected by the Federal Trade Commission, Food and Drug Administration and the Departments of Health, Education, and Welfare and other agencies". His view is that a new Department would only create another cumbersome and expensive bureaucracy. Elsewhere in the area of new Cabinet spots, Congress takes a "dim view" of the President's proposed Urban Affairs and Housing deal, but may clear it for Presidential signature.

FBI Ready To Round Up The Reds. The Aug. 9 deadline for Communist Party to register as an agent of the Soviet Communist conspiracy and the point of prosecution for card-carrying Reds, will find the Federal Bureau of Investigation "at the ready". Who they are and where they are — thanks to the diligence of Director J. Edgar Hoover — is well known; they can be rounded up in a matter of hours. Although somewhat hampered by activities of the "Freedom Riders," Justice Department is fully prepared to move in with "swift" prosecutions on the morning of August 10.

Metals, Plastics & Lumber Encouraged. New Frontiers vast building program (mostly in the housing field) omens a boost for steel, aluminum, copper, plastics and lumber — all prominent components of today's building. Glass will get help too, as will paint and papering. Although the New Frontiers program is slanted toward housing costing $15,000, or less, metals and plastics are expected to play a large part, while lumber, bricks, (the conventional building materials) will ride "high, wide and handsome" because of the low down payment, 40-year mortgage guarantees. The materials men get cash while government and the taxpayers "hold the bag" on the 40-year mortgages, most of which will be abandonded by the mortgagors around 20 years hence when the cheaply built houses begin to disintegrate, or when advancing industry and shifting populations render the low-cost housing undesirable, even obsolete.

Oil-Gas Depletion Allowances Safe. Senate efforts — sponsored by Williams (Del.), Aiken (Vt.) and Smith (Me.), all Republicans, to cut oil and gas depletion allowances from the present 27½% to 20%, even though milder than previous proposed depletion reductions, will "fall flat". It is barely possible — but only barely — that it will clear Senate Finance Committee (of which Oklahoma's

Robert S. Kerr is a ranking Member). Assuming Senate clearance of the proposal, it will run into stonewall opposition in the House where it must get the "blessing" of Ways & Means Committee and, especially, the approval of House Speaker Sam Rayburn, of Texas, who, though not Chairman of W&M, seems to dictate the Committee's course — perhaps because Chairman Wilbur Mills (D., Ark.) expects to fall heir to the Speaker's gavel at Rayburn's suggestion.

Aerospace Research Reaches For The Sky, Fiscally. Research and development expenditures by Defense, Atomic Energy Commission (AEC), and National Aeronautics and Space Administration (NASA), now tabbed for $7.6 billion this calendar year, are even now foreseen as "inadequate". At least $1 billion more will be needed before year's end with a prospective $10 billion total for 1962 if progress is to be made on the "moon voyage" and development of nuclear fuels for long-range rocket propulsion. This research is another factor which likely will contribute to the necessity for a 1962 increase in the statutory debt limit.

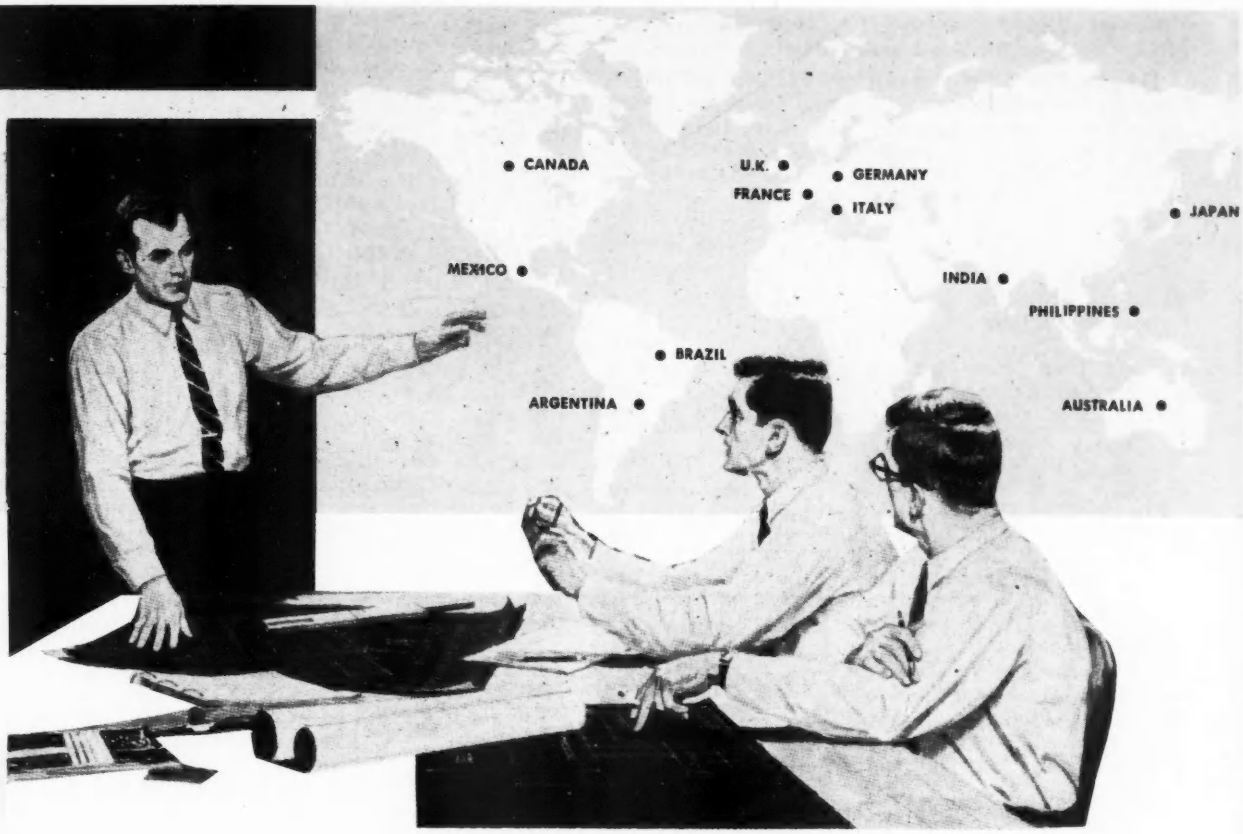
President Sets Herculean Task For Himself. According to responsible Congressional sources familiar with the subject, Mr. Kennedy's pledge to bring efficiency to our foreign aid program "closely borders the impossible, and will be a task of great magnitude, taxing the ingenuity of Executive and Legislative arms of the Government."

Adequate personnel will be the answer — not adequate in numbers, but in abilities. Here the roadblock is (1) scarcity of qualified men and (2) inadequate pay scales as compared to those afforded by private industry. Another basic problem is that of selection and screening. Congressional archives are loaded with on-the-spot reports by legislators and their investigators of U. S. overseas personnel who are totally unfit for their jobs, could not earn a living here, but somehow or other managed to land "cushy" jobs in the foreign aid apparatus.

Accelerated Atomic Reactor Program By Private Industry Anticipated. Supreme Court ruling that Atomic Energy Commission (AEC) may license private utilities to build atomic-powered generating plants in metropolitan areas and delay a definitive safety test until the plant is ready to begin operation, will encourage private utilities in the construction of such plants. A reliable AEC source states that "perhaps 10 or 12 private utilities were holding back on such construction, pending the High Court ruling." He added that "with decks cleared" by the decision, AEC "confidently" looks forward to an accelerated reactor construction program by the private companies. The suit was instituted by a labor union which declared that a proposed reactor-generator in a metropolitan area of Michigan should not be approved by AEC until there were "definite" safety assurances before actual construction began.

Multi-Fuel Motors To Be Available If In Sufficient Demand. Developed for the Armed Forces is a heavy duty truck engine (2½ tons, up) that can operate on several available fuels — gasoline, kerosene, diesel fuel, liquid petroleum gas — with minor adjustment by the operator. Its versatility is seen as advantageous to long-distance overland truckers who may encounter specific fuel shortages enroute. Army, pleased with results thus far obtained, has signed contract with a major motor manufacturer for deliveries to begin in next few months. If, after surveys of truckers' wants, the new motor is found desirable, the manufacturer will be prepared to enter quantity production for commercial use.

Low-Cost Housing Mortgage Plan To Prove Costly In 20 Years. Federal and private experts in the building field are agreed that next generation taxpayers will be "holding the bag" on Federally-guaranteed 40-year housing loans. Perhaps as high as 50% of 40-year mortgages will be defaulted in 18 years for reasons (1) that 18 to 20 years is about maximum life of home in $10,000 to $15,000 class and (2) industrial progress, plus ever-shifting populations, will make the homes undesirable from any standpoint. Heavy applications for mortgage guarantees are anticipated for reason that monthly payments will be lower than rent. All of this is known to the Administration which deliberately uses the plan for political aggrandizement now by pumping more money into the building industry with resultant lowered unemployment in the building trades. It all has enthusiastic union support.



THE ROLE OF LICENSING AGREEMENTS in the DEVELOPMENT of PRIVATE INVESTMENT ABROAD

By NORMAN A. BAILEY and JAMES A. LOUGHRAN

— This interesting and practical feature explains a matter in relation to international trade we often hear mentioned and yet know little about.
— It deals with a most important facet of investment for American corporations in collaboration with the local companies in the individual countries

ONE of the most important forms of aid that an underdeveloped country can receive, notwithstanding the current emphasis upon governmental grants, is private external investment in the agricultural, industrial and mining sectors of its national economy.

► In Latin America alone, for example, private United States companies have invested almost eight billion dollars and produce more than four and a half billion dollars of goods and services annually for use within Latin America, plus over three billion dollars more for export!

● This means that over seven billion dollars is injected into the Latin American economy each year by U.S. companies, in the form of salaries, wages, taxes and purchases of local materials.

● Over one million persons, less than 2% of them from the United States, are employed by these companies, which also contribute more than twenty percent of the tax revenues of the Latin American governments. This picture led former Senator Benton to declare recently, ***"Latin America is not going to realize any major part of its potential for economic development over the next decade without increased investment by private foreign investors as well as expanded credit from the international lending agencies."*** The same holds true, perhaps to an even greater extent, for the rest of the under-

developed countries all around the world.

The Good and the Evil

Despite this beneficial role private foreign investment, particularly that originating from the United States, is bitterly attacked and sometimes effectively thwarted in the underdeveloped countries, not merely by the left, but often by the conservatives as well.

● There would seem to be little present-day justification for this attitude. United States corporations which move abroad generally bend over backward to avoid offending local sensibilities, employ the maximum number of local people, pay their taxes and follow laws and regulations with much greater honesty than local businessmen (the latter policy sometimes creates resentment in the business community, a classic example of being caught on the horns of a dilemma).

That exploitation, bribery, dishonesty and chicanery were practiced by some American corporations in some parts of the world in past years is undeniable, and the present local attitude towards private investment undoubtedly stems, partially from this unfortunate history. That some of these practices exist today as well (as they do on the domestic scene in every country of the world) would also be impossible to deny, but their incidence is certainly greatly reduced, and is probably far less than that on the part of local businessmen and government officials in many countries. In any case, with proper surveillance and regulation (not extending to confiscatory meddling) foreign private investment can be one of the most effective means of increasing total capital formation so that local resources can be employed in other, more pressing fields.

Distribution of Licensing Agreements by Major Geographic Areas[1]

Area	Percent
Europe and United Kingdom	50.6
Latin America	17.4
Asia	12.2
Australia and New Zealand	9.0
Canada	6.2
Africa	4.6
Total	100.0

1—Based on 500 individual licensing agreements identified as to regional location of licensee. Survey by NICB, Inc.

P.R. of Limited Value in Changing Our "Image"

Under the circumstances, the prejudice against American companies exists, and must be dealt with by pointing out the real contribution we make—while at the same time we must clean house where abuses exist. The companies themselves, through public relations campaigns, through the employment of local individuals, through honesty and fairness in their dealings, and by other means, are attempting to change the mental image the underdeveloped countries have of them. Although such programs are to be encouraged, their total effect may be doubted, since much of the criticism in a great many instances arises from envy, from resentment at competition and from Communist and other leftist-inspired sources. This criticism will not be stilled by programs of public relations.

The basis of American industrial strength is, and for many decades has been due to technological advance and innovation. There is no other way that we can compete, given our unjustifiably high and rigid wage system, with Japanese, Western European, and even Russian industry. That we can compete effectively by innovation is shown by the high tariffs on American industrial goods maintained by most of the underdeveloped world, and the reluctance of even some of the European countries to eliminate their discriminatory restrictions against imports from the dollar area. **At no time can American industry rest on its laurels, however; keeping ahead of the rest of the world is a never-ending task, and as the industrial machines of Western Europe and Japan shift into high gear (particularly with the increase of market areas and thus of efficiency due to larger-scale operations), the task will become even more difficult.**

A Method of Side-stepping National Jealousies

American technological superiority, however, provides the basis for a method of international expansion which by-passes many of the criticisms against ordinary investment. At the same time it provides local industry with the tools necessary for it to realize the advantages of advanced industrialization: low-cost, high-quality goods; employment; industrial and business skills, and increasing wealth to those countries now emerging from a feudal or pastoral existence. This method is licensing.

Essentially, in a licensing agreement the U. S. company gives a foreign company valuable rights or intangible services—patents or know-how, for example—in return for a fee or other forms of remuneration. "Licensing" can have a very broad meaning and consequently a great variety of agreements are grouped under this generic term. The following rights and forms of assistance, or any combination of them, however, are usually found in licensing agreements:

1—A patented product or process.
2—A trademark or trade name.
3—Manufacturing and industrial know-how.
4—Technical assistance and engineering services.
5—Financial and management participation in the foreign operation.
6—Franchise arrangements with distributors or users.

The simple patent and know-how agreements were once the more familiar forms but the more typical foreign liscensing agreement today is likely to be a hybrid, combining all or most of the above elements. The essential ingredient in modern licensing agreements, however, is some degree of cooperative effort between American and foreign companies in the use of the licensed rights and know-how to manufacture and distribute products abroad.

Licensing: The Middle Approach

Licensing is a middle approach to foreign markets. To most American companies extensively active in foreign operations, the licensing agreement is not the main or preferred route to the foreign market, but a profitable supplementary approach to be used in specific instances or for certain markets.

Some American businessmen would prefer to confine their foreign operations to simple exporting but find this impossible because of the pervasive pene-

tration of the foreign market by competing Japanese and European products. Competitive factors suggest that they move closer to their traditional foreign markets, but for a variety of reasons they are unable or unwilling to move productive facilities abroad. Thus, for such organizations licensing is a middle alternative. It offers many of the advantages of local manufacture without the investment of capital and the risks involved with managing one's own plant in a foreign land.

Other executives prefer to develop their foreign operations in stages, rather than to leap from their initial export phase of operations into a full program of direct investment abroad. Their policy of moving gradually from shallow to deep penetration suggests the use of licensing as an intermediate and perhaps temporary phase. **Under the current licensing agreements, not only does the licensing company export know-how and patent rights, but it also very often invests in the foreign enterprise by receiving shares for the transfer of its technical assistance.**

Motives for Foreign Licensing

Why do American companies supply a foreign firm with their patents, know-how and technical assistance? The simple answer, of course, is that a foreign licensing agreement is expected to contribute, directly or indirectly, to company earnings. But more specifically, what objectives do most American companies have in mind when they set up a licensing program?

The major objectives that induce a company to license abroad are three:

- ► To gain "gravy" income from patents, trademarks and accumulated know-how;
- ► To acquire reciprocal benefits from foreign know-how, research and development; and
- ► To gain some tactical or strategic advantage in marketing its products globally.

The relative stress placed on these objectives varies from company to company but they do point up some of the advantages to be realized from licensing agreements.

Rather than hoard accumulated know-how and patents, licensing may afford a company the opportunity to exploit its patented processes and industrial skill abroad, thereby adding extra income to the company coffers and helping it recoup a good amount of research dollars.

Reciprocal Benefits

With the recent resurgence of European and Japanese industrialization, many Americans are discovering, sometimes with shock, that American firms do not have a monopoly in new manufacturing techniques and knowledge. Thus, many U. S. licensors are agreeing with foreign firms to exchange technical information. By licensing, then, one can receive —as well as give—significant know-how.

Licensing for some American companies can also be a device for preserving production and sales operations, rather than an important source of company earnings. For example, when direct access to a market is suddenly cut off by the imposition of trade or currency barriers, and the company is unable or unwilling to establish its own manufacturing plant abroad, then the licensing arrangement may provide a reasonably satisfactory compromise. ● Even when there are no such tariffs or restrictions, the U. S. company can often bolster its export sales to the market licensed by selling accessories, essential component replacement parts and other key raw materials to its licensee. **Additionally, the licensing of a foreign concern with the requisite production and distribution facilities can serve as the preliminary phase during which the American manufacturer evaluates the foreign market and has his products tested before he plunges into the foreign field directly—a very realistic test at a minimum capital outlay.**

Distribution on Licensing Agreements by Country of Licensee[1]

Country	Number	Percent
United Kingdom	73	15.1
France	44	9.1
Australia	39	8.1
Canada	31	6.6
Germany	31	6.6
Japan	28	5.8
Italy	25	5.2
Mexico	23	4.8
South Africa	16	3.3
Belgium	16	3.3
Argentina	14	2.9
Brazil	13	2.7
Netherlands	10	2.1
Sweden	9	1.9
India	9	1.9
Spain	9	1.9
Colombia	8	1.6
New Zealand	6	1.2
Norway	5	1.0
Venezuela	5	1.0
Others	63	13.9
Total	483	100.0

1—Distribution based on companies reporting exact number of AGREEMENTS to National Industrial Conference Board's inquiry on Foreign Licensing Practices.

Foreign Participation at Small Capital Outlay

● Another basic advantage of the foreign licensing agreement is the opportunity it affords American companies to participate in the profits of a foreign enterprise without investing American dollars. Even small companies, with the barest of capital resources, have been able to acquire part ownership or, in some instances, a controlling interest in a foreign enterprise in exchange for patent rights, know-how, and technical assistance. Some companies have accumulated their licensing fee payments in a tax-haven subsidiary for direct investment in other foreign markets, thus expanding their overseas investment without drawing upon domestic capital funds.

● **Licensing agreements are also advantageous where the American manufacturer has wholly-owned foreign manufacturing subsidiaries.** Such subsidiaries are usually established in industrially advanced countries, which generally impose high taxes on corporate income and dividend remittances. These same countries, however, as a rule have low withholding taxes on royalties paid by locally-domiciled licensees. Thus, the withholding taxes on the American parent company's licensing fees are less than the income taxes payable by the foreign subsidiary licensee.

Minimizing the Risks

There are, however, two distinct disadvantages to licensing arrangements. *(Please turn to page 446)*

A New Feature

Number Six . . .

A First-Hand Report on . . .
LATEST SHIFTS IN 1961 DEFENSE EXPENDITURES
— And who will get the orders

By JEROME ELSWIT

PRESIDENT KENNEDY'S bold and expensive decision to challenge the Russians in a race to the moon has elicited two types of response in Washington: (1) "What took him so long?", and (2) "The U.S. budget will reach the moon before a man does."

But regardless of whether the whole multi-billion dollar space package is bought by Congress in the next couple of weeks, as it well might be, or is trimmed back by those who think our feet should stay more firmly on the ground, the nation's civilian space program has now been linked irrevocably with that broad area of Government policy which goes under the general definition of "National Security" and includes, in addition to the military forces, such activities as atomic energy, civil defense, military aid, and materials stockpiling.

Space Activities As A Substitute for Armaments

It is fitting, therefore, that in this series on defense procurement we examine some of the implications for American industries of the prospective increase of almost 50 percent in the space program. The industrial impact of the proposed expansion, you may be sure, was not ignored in the considerations leading up to the decision to plunge ahead in space. Administration economists have been casting about frenetically for new ways to stimulate industrial growth, with or without Government aid.

The proposed increase of $679 million for fiscal 1962, the President made it clear, is merely a down payment on expanded programs that will cost from $7 billion to $9 billion more over the next five years than would have been the case under the budget

presented to Congress just two months ago. By far the largest single increment will be for the new "national goal" of landing a man on the moon and returning him safely to earth before 1970.

This will require an additional $531 million in 1962 and still higher additions in the future. The money will be spent in three major areas: (1) super-power rocket engines for the launch vehicle; (2) the NOVA launch vehicle itself; and (3) the Apollo space craft in which the three-man crew will travel. All three are still more or less in their infancy.

Proposed Appropriations For Space (Fiscal 1962) National Aeronautics & Space Admin.

	Eisenhower Buget	Kennedy Budget #1	#2 (New Total)
Salaries & Expenses	$189,986,000	$196,686,000	$226,686,000
Research & Devel.	819,819,000	919,539,000	1,295,539,000
Construction	99,825,000	119,075,000	262,075,000
Total Appropriations Request	$1,109,630,000	$1,235,300,000	$1,784,300,000
Plus:			
Defense Dept			77,000,000
Weather Bureau			53,000,000
Grand total, space acceleration			$1,914,300,000

Russian Success Caused Revival of Apollo Project

The Apollo project, earmarked for $29.5 million both by the Eisenhower Administration and the first Kennedy budget, would get an extra $130.5 million. When the Apollo contract, expected to be worth $600 million to $800 million, is put out for bids late this year, the leading contenders will be **Martin Co., General Electric,** and Convair **(General Dynamics).** These three firms have just completed the first studies of the Apollo concept for the National Aeronautics and Space Administration (NASA).

It is a significant measure of the calculated risk being taken by the Administration, and of the pressure exerted by the Russian Gagarin episode, that only last January Mr. Eisenhower announced his decision to slow down the Apollo project because we did not know enough about the problems of man in space. In March, Mr. Kennedy made no change in the Eisenhower budget allocation for Apollo. It is highly improbable that the answers have been found in the few weeks since then.

Crucial Element: The NOVA Engine

The NOVA launch vehicle has not even had the benefit of the comprehensive paper studies just completed on Apollo. The $48.5 million proposed by Mr. Kennedy will be the first funding of this complex machine, which will dwarf the largest launch vehicle under construction so far in the Free World, the Saturn.

The next seven or eight months should see the biggest spate of contract awards yet for large items of space vehicle hardware. These will include various stages of Saturn, some of which have been "in-house" NASA projects; initial design of the NOVA vehicle, to be started early in fiscal 1962; and design of the Rover nuclear-powered space craft, to begin early in calendar 1962. Big-missile experts such as **Martin, Convair, Douglas, Lockheed,** and **Boeing,** will be called upon for the job of integrating and assembling once actual development gets under way.

The heart of the NOVA, and indeed of the whole "gap" between Russian and U.S. space capabilities, lies in the huge engine that must be developed to provide adequate thrust for the 290,000-mile trip to the moon and return. A fair start has been made with the liquid-fueled F-1 engine, under development for the past two years by **North American Aviation.** The F-1 has been something of a stepchild at NASA, and the President proposed an initial acceleration of $15 million for the project.

A New Crash Program

But many experts do not see a cluster of F-1's, with the complex pumping mechanisms, in readiness for the crucial manned lunar flight before the latter part of the decade. **In what would be a drastic reversal of present policy, the President has proposed that the Defense Department embark on a crash development program for a giant solid-fuel rocket booster for NOVA, in open competition with NASA's liquid-fuel engine program.**

The Pentagon would get an extra $62 million in 1962 to start this project, presumably under the Air Force. Four firms have been most active in this field: **Aerojet, Thiokol, Grand Central Rocket,** and United Technology **(United Aircraft).**

Estimated Actual Expenditures in Fiscal 1962 (NASA):

Eisenhower Budget — $ 965,000,000

New Kennedy Budget — $1,380,000,000

Summary of Research & Development Spending (NASA)

Program	Eisenhower Budget	Kennedy Budget #1	#2 (New Total)
NASA support	$ 74,310,000	$ 77,110,000	$ 89,110,000
Life Sciences	8,620,000	8,620,000	20,620,000
Sounding Rockets	7,000,000	7,000,000	9,000,000
Scientific Satellites	64,700,000	64,700,000	72,700,000
Lunar & Planetary Exploration	103,899,000	103,899,000	159,899,000
Meteorological Satellites	28,200,000	28,200,000	50,200,000
Communication Satellites	34,600,000	44,600,000	94,600,000
Apollo space craft	29,500,000	29,500,000	160,000,000
Launch vehicle technology	15,000,000	15,000,000	27,000,000
Liquid propulsion	68,700,000	78,020,000	93,020,000
Nuclear systems technology	24,000,000	28,000,000	36,000,000
NOVA launch vehicle	—	—	48,500,000

It may be significant that in his special message to Congress Mr. Kennedy completely glossed over the fact that he was recommending a partial shift back to the military for what has been an exclusive NASA domain for the past two years. Mr. Eisenhower put all work on "super-boosters" under the civilian space agency, partly to end incipient duplication and partly to strengthen the world image of a "peaceful" U.S. space program.

If the expected complaints of duplication and rivalry between NASA and the Pentagon arise as a result of this move, Mr. Kennedy will point out that the Air Force program will be tightly aligned to requirements laid down by NASA for the NOVA engine, and that practically all the available know-how on solid propellants is in the military and its contractors. Whether or not the solid propellant is chosen for NOVA, the Air Force will undoubtedly find plausible military requirements for its use.

Companies Involved in Intermediate Space Probes

An extra $66 million was recommended for stepping up exploration of the environment between the earth and the moon. It is believed that additional Mercury capsules will be ordered from **McDonnell Aircraft** for tests in this area. **Atlantic Research Corp.'s** and **Aerojet's** sounding rockets and **Chance Vought's** Scout launch vehicle will probably also be bought in increasing numbers.

Programs for upper stage engines by **North American** and Pratt & Whitney **(United Aircraft)**, and for unmanned space probes involving Space Technology Labs **(Thompson Ramo Wooldridge), Hughes Aircraft**, Aeronutronics **(Ford)** and numerous electronic and missile firms will feel the impact of the expansion. The Defense Department will also get $15 million for a launch vehicle based on **Martin's** Titan II missile. Work on the nuclear rocket is also being stepped up. **Westinghouse** and **Aerojet** will get a "team" contract for work on the propulsion system, with the contract for the vehicle itself to be awarded next year.

Participation in Communications Program

To speed up the satellite communications program, where it is felt the U.S. can achieve a spectacular "first", the President has proposed an additional $50 million. **Radio Corp. of America** will build the experimental NASA satellite, while **Bendix** and **General Electric** are working on a more complex system for the Army, the Advent satellite. Even more lucrative than the hardware contract, however, will be the operation of a commercial global system. The fight is already on in this arena, with common carriers such as **American Telephone** and **International Telephone** ranged on one side against such non-carriers as **G.E.**, who also want to participate in ownership of the prospective system.

RCA is also expected to benefit from the extra $22 million proposed for the TIROS weather satellite program. Another $53 million would be put at the disposal of the Weather Bureau to develop a global meteorological satellite system based on the successor to TIROS, the planned NIMBUS, for which development contracts are now being awarded. G.E. will integrate the system and develop the control sub-system. R.C.A. will provide the T.V. camera.

More Money For Military Astronautics

It should not be forgotten, with the new emphasis on "peaceful" space projects, that the separate *military* astronautics program was already budgeted for close to $1 billion before the latest increase. This is for research and development, before any of the military systems reach the production stage. The three **Lockheed** programs alone—the SAMOS surveillance system, MIDAS missile warning system, and Discoverer experimental satellite—will get $500 million in the 12-month period starting July 1.

Other projects on the upward funding curve are the Dyna-Soar manned space glider (Boeing, Martin) and the SAINT inspection satellite (RCA). A start will soon be made on an exotic satellite anti-missile concept known as BAMBI (ballistic missile boost intercept), with **Space Technology Labs, Hughes**, and **General Dynamics** in on the ground floor with initial research.

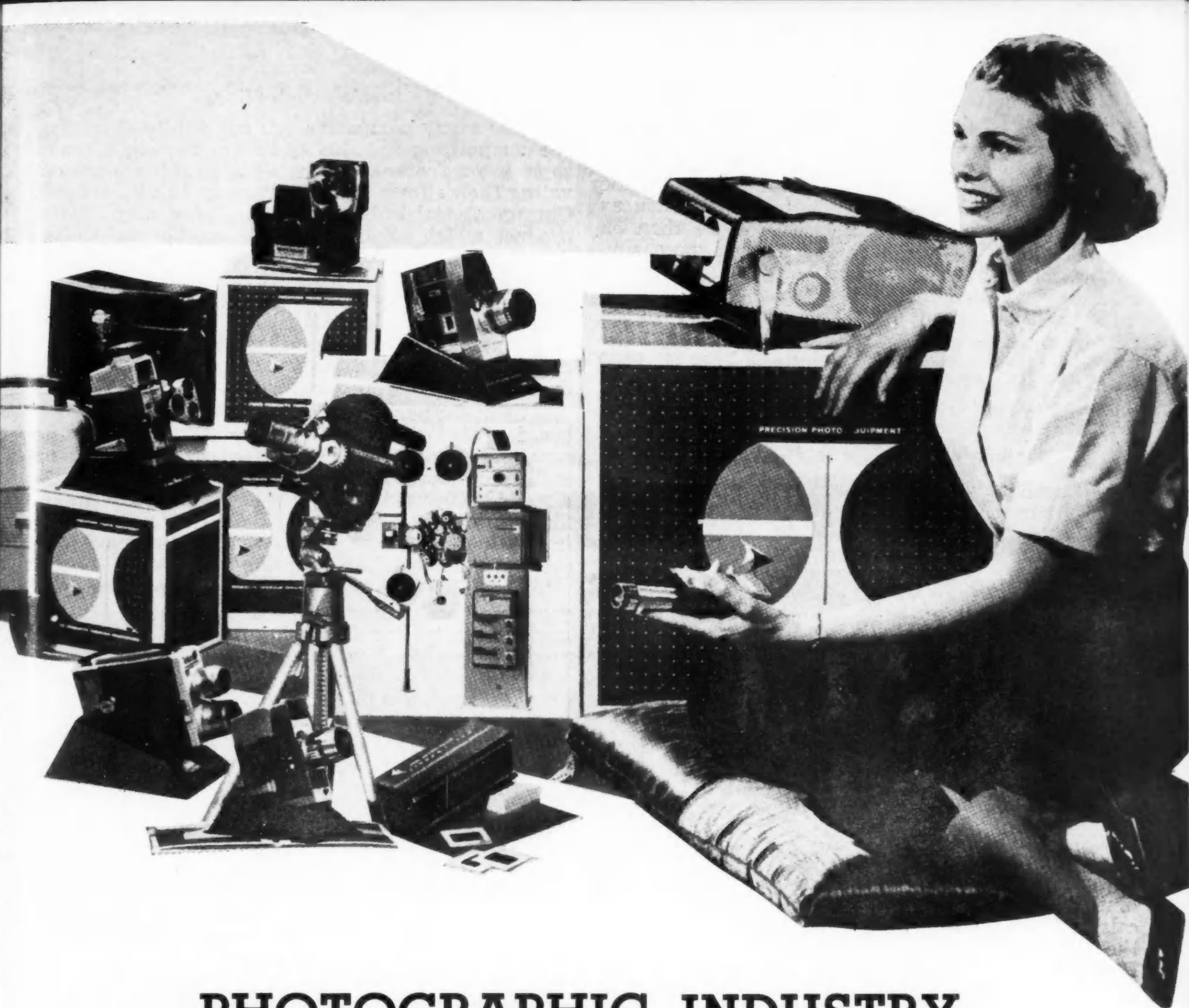
The first truly operational space system, military or civilian, is expected to be the Navy's little-publicized TRANSIT world-wide navigation system, using four satellites and a minimum of ground equipment. Most of the experimental equipment has been fabricated on a model-shop basis, but a commercial contractor for the satellite, possibly General Electric or Bendix, may be selected in the next year. The Navy now looks to have an operational capability by the fall of 1962.

Of particular interest to contractors and investors, for both space and other military procurement, is the change in Pentagon thinking on contractor profits. Secretary of Defense McNamara and his chief deputy for procurement, Thomas D. Morris, are dropping broad hints that they are prepared to raise the traditional 6-to-8 percent profit level to the statutory limit of 15 percent for good contractor performance, in exchange for industry agreement to take more risks in the form of incentive contracts that could drop a contractor's profits to zero or even force him to pay a "fine" if his performance is poor.

As for the new Air Force solid-fuel booster program, to compete with NASA's liquid engine, the indications are that $1.5 billion to $2 billion may eventually be committed before development is completed. At least $100 million would be needed for new facilities alone, it is estimated. Present thinking is that two companies will be chosen to compete with initial research work for the coveted development contract. **Aerojet** appears to have a leg up in this competition, through its Air Force-sponsored research work with large segmented solid rockets.

A Widening Business Stimulus

Thus it can be seen that the primary stimulus from expansion of the space program will be felt most immediately by the aircraft-missile and electronic industries, with the effect spreading like ripples in a pond through metal fabricators, chemicals, construction, communications and eventually even down to suppliers of nuts and bolts. Companies who have never done business with NASA before will be joining the parade, partly as a result of the liberal interpretation the space agency has put on its restrictive patent statute. Raytheon, for instance, is expected shortly to put aside its reservations in this regard and compete for the first time for NASA contracts. Numerous other organizations will be participating indirectly. It is in fact, impossible to foresee all the ramifications of so vast a program, but the companies identified above will have the earliest stake in space exploration. END



PHOTOGRAPHIC INDUSTRY IN THE THROES OF TRANSITION

By DONALD T. IRWIN

— As new companies enter the field
— with new and ingenious products
— stepping up the fight for the "shutter-bug's" dollar

WITH an annual market now estimated to be in excess of \$2.3 billion, and growing at a rate more than double that of Gross National Product, it is little wonder that more and more American concerns are entering various phases of the photography industry.

This recent influx of new domestic competitors, coupled with the improving position of foreign manufacturers, has triggered a wave of photographic technological development perhaps unparalleled in the industry's history, with the possible exception of the Early Forties when military requirements greatly accelerated the research and development of new films and related equipment.

Not only is the market served a large one, but profits too tended to be high. (It was not uncommon for pre-tax earnings to exceed 20% of sales). Thus it was natural for the dramatic appeal of this industry to arouse keen speculative interest to a point where some stocks are still currently selling at an average of 30-40-50 times earnings and more, mainly in anticipation of further growth.

This is being stimulated by the number of new sensational products and new companies entering the field. Hardly a week now passes without tales (some real, and others merely rumors) of a new more economical method of processing film, the invention of self-loading cameras and projectors, the availability of equipment containing the latest automatic features at a cost below that of competing

equipment, or the development of a new color film which can be purchased and/or processed at a cost similar to that of its black and white counterpart.

Increased competition is only part of the reason for this scramble for new products however. While photography continues to maintain its position as America's number one hobby, with more than 52 million camera owners, it is also finding increasing application in the educational, medical X-ray, data recording and commercial reproduction markets. Thus traditional industry leaders are faced with the dual problem of not only maintaining current positions in established markets, but of keeping pace with competitors in serving new extensions of the industry as well—the old game of saturating the market.

Photographic Pie Cut in Many Slices

It is estimated that there are currently about 450 manufacturers of photographic equipment in the United States, in addition to about 3,800 film processors, most of which are small family-owned enterprises. Many of the nation's largest companies whose principal activities are focused elsewhere, have extended the application of their specialized product development to the particular phase of photographic technology most consistent with their general product line.

Thus **General Electric** and **General Telephone** are among the leading manufacturers of flash bulbs; **P. R. Mallory** and **Union Carbide** maintain strong positions in the flash battery field; **American Optical, Perkin-Elmer,** and **Bausch & Lomb** are important producers of lenses; and **Minnesota Mining** and **General Telephone** are engaged in the manufacture of photographic equipment through their respective Argus and Revere subsidiaries. **Du Pont** originaly limited its participation to films, papers and chemicals, but has recently announced plans for entry into the consumer film field in partnership with **Bell & Howell** in the manufacture of a colored film.

Others traditionally associated with a particular phase of the industry have recently branched out in an attempt to secure a larger slice of the pie. Until 1959, 8 mm motion picture equipment sales had been growing at a faster rate than those of all other equipment categories with the exception of the Polaroid Land camera. So intense has competition become recently within the area that many traditional 8 mm equipment manufacturers such as **DeJur-Amsco** and **Bell & Howell** have diversified into other industries. **The problem is further complicated by a slowing down of sales of such apparatus and with an estimated 4½ million 8 mm cameras now in use, future growth is expected to more closely parallel that of general population trends.**

Nicolas Reisini, **Cinerama** president, has made it clear that even the relatively sedate still camera field is still subject to significant new product development, with the announcement of a research program aimed at perfecting a moderately priced Cinerama panoramic camera for mass production for the amateur market.

In other areas such as colored film manufacturing competition continues to gain in intensity. In addition to the new **Bell & Howell-DuPont** product mentioned above, **Technicolor** in partnership with **General Aniline, Perfect Photo** and **Dynacolor** have also either recently entered the field or plan to do so shortly.

Breakthrough Efforts

While many companies are content to encounter the competition of industry leaders in their attempt to secure a foothold in photography, others are devoting their efforts to novel dramatic breakthroughs. **Chicago Aerial Industries** for instance may have a product which could do for the motion picture industry what the **Polaroid** camera did for still photography. Thus far its fast acting one-step developer has been aimed primarily at military markets. In time, however, Chicago Aerial is expected to bring its adapter to the commercial market, where, if costs can be reduced, the response could be extremely dynamic.

Kalvar Corporation has come up with a mylar-based coated film that is sensitive to ultra-violet rays. After a relatively long exposure it can be easily developed by applying heat. The process is already being used to take the reproduction of microfilm out of the darkroom, and further applications in both photocopying and conventional photography are expected to follow over the years ahead.

Technical Operations has a new photographic process whereby only a conventional household flatiron is required for developing its film. Thus far the products principal drawback has been its lack of speed, which requires that subjects being photographed remain still for several seconds. Recently a pilot plant was established by the company. While its slow speed is still a limiting factor in regard to many potential applications, the film is at least fast enough for photocopying, microfilm and photofinishing applications. These are only some of the developments now taking place, but they are indicative of trends within the industry. With tempting rewards awaiting those who are successful, competition and product development has become the industry keynote. While photography will most likely continue to grow at an impressive rate, marked shifts in the relative importance of individual concerns are likely to occur over the years ahead.

A summary of the current status of some of the more important photography companies follows.

Bell & Howell: As the result of the acquisition of Consolidated Electrodynamics in January, 1960, and Russell Ernest Baum, Inc. purchased earlier this year, Bell & Howell can no longer be regarded solely as a photographic equipment manufacturer. In fact, last year such non-photographic items as data processing and recording instruments, electronic systems and high vacuum equipment accounted for about half of the company's $114 million of sales.

Although a small quantity of a single still camera model is still manufactured, Bell & Howell has traditionally concentrated its efforts in the photography field on motion picture equipment, more than half of which is sold to the professional market. The company is not only the acknowledged leader in the production of 16 mm sound projectors, but is also the number one manufacturer of 8mm equipment which is sold primarily to the amateur market. Late in 1959 an 8mm electric eye movie camera with a zoom lens, known as the Zoomatic, was introduced. So enthusiastic was public acceptance during 1960, that despite its $210 listed price tag, it was the largest selling camera in the country. The company has also recently introduced a new line of slide projectors which focus and change slides by remote control.

Manufacturers of Cameras and Photographic Equipment

	1st Quarter Net Sales (Millions) 1960	1st Quarter Net Sales (Millions) 1961	1st Quarter Net Earnings Per Share 1960	1st Quarter Net Earnings Per Share 1961	Full Year Earned Per Share 1959	Full Year Earned Per Share 1960	Full Year Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-1961	Recent Price	Div. Yield %
Bell & Howell	$24.0	$22.8	$.15	$.02	$1.33	$1.33	$1.90	$.40[3]	69⅞- 37⅝	63	.6%
Eastman Kodak	195.4[1]	193.8[1]	.62[1]	.56	3.24	3.30	4.42	2.25	136¼- 94	106	2.1
Fairchild Camera & Instr.	13.8	20.6	.77	.72	2.00	3.07	4.86	.50	201¾-110¼	164	.3
Kalvar Corp.	N.A.	N.A.	N.A.	N.A.	1.62[5]	d2.82[5]	—	—	705 -520	520	—
Perfect Photo, Inc.	N.A.	N.A.	N.A.	N.A.	.83[5]	.40[5]	1.32[5]	—[4]	71⅞- 33¾	57	—
Polaroid Corp.	20.1	14.0	.58	.06	2.78	2.26	3.01	.20	261¾-163¼	207	.09
Technical Operations	2.6[6]	2.1[6]	.09[6]	.16[6]	.36	.26	.46	—	94¾-10½	58	—
Technicolor, Inc.	8.8[2]	11.8	.13[2]	.18	.13	.16	1.00	—	42⅜- 6⅞	28	—

*—Based on latest dividend rate.
N.A.—Not available

1—12 weeks.
2—16 weeks.
3—Plus stock.

4—Vote June 28/61 on 3 for 1 split.
5—Year ended Mar. 31, 1960 & 1961.
6—6 mos. to April 1.

While continuing as the dominant factor in the production of movie equipment, increasing competition, and the approaching of a saturation point in the amateur market would no doubt make it difficult for Bell & Howell to match its recent progress during the years ahead, had it not been for recent diversification moves.

Though per share earnings were unchanged during 1960, and trailed prior year results by 20% during the 1961 first quarter, full year earnings are expected to post a new high. With its position within specialized electronic areas as highly regarded as its place in photography, long term prospects are very favorable. If the new color film to be introduced jointly with Du Pont in 1963 is successful, Bell & Howell's progress during the coming decade may well exceed the impressive record of the last ten years.

Eastman Kodak: The largest and most complete producer of photographic apparatus and supplies, Eastman Kodak has also diversified its activities in recent years, and now derives about one-third of its sales from such items as chemicals, plastics and fibres. Sales of photographic items abroad have advanced more rapidly than domestic photographic revenues in recent years, and had it not been for an increase in the dividends remitted to the parent company from foreign subsidiaries in 1960, reported earnings would have trailed those of the prior year for the first time since 1952. In line with general industry experience, first quarter earnings trailed those of the similar year earlier period, but with start-up expenses at new plants likely to be substantially below the 1960 level, more favorable comparisons during the remainder of the year appear likely.

Since 1952 when the company was forced to curtail its film processing operations as the result of an anti-trust litigation, the company has been able to maintain its position within the industry through emphasis on product development. The importance of this program may be illustrated by the fact that approximately 40% of 1960's photographic equipment sales were accounted for by products placed on the market for the first time that year. Already this year Kodak has introduced an improved film for both 8mm and 16mm movie makers, as well as slide enthusiasts. Known as Kodachrome II, the new product provides sharper pictures, improved color rendition and better detail in shadows, in addition to a speed two-and-a-half times as great as that of standard Kodachrome film.

At Kodak research is a never ending activity. Emphasis is currently being given to the development of rapid processing systems for varied applications. One experimental unit mentioned in the Company's 1960 report to shareholders for example, is designed to develop 16mm motion picture film in less than 60 seconds. Further work is also being conducted on a silver-sensitized paper which can be processed within a heated chamber in less than three seconds. Kodak is not depending on new product development alone however, but is continuing to pursue its program of gradual diversification. Last year a new magnetic recording tape was perfected for the purpose of entering this rapidly growing market sometime during the current year.

As the largest supplier of photography equipment in the country, Eastman Kodak is also perhaps most vulnerable to the loss of markets through the technological achievements of others. However, its consumer acceptance is not even approached by any of its competitors, and the diversification of its activities, both within and beyond the scope of the photography industry speak well for Kodak's continued growth over the years ahead.

Fairchild Camera & Instrument: In addition to activities within the photographic field, Fairchild Camera is also active in many other areas such as semiconductors, closed circuit television systems, electronic engraving equipment and cathode-ray and microwave tubes. The company is perhaps best known however for its original camera manufacturing business. Today, the company is a leading factor in specialized military photographic products which include complete reconnaissance systems for use in aircraft, missiles and satellites.

Consumer products also are important however. Last Spring the company introduced a new Cinephonic 8mm sound motion picture camera and projector designed specifically to meet the needs of educational and sales markets. Portable and lightweight, this equipment is also being actively promoted to the general public, and is the first lip-synchronized 8mm sound equipment offered. Though more expensive than similar non-sound equipment designed for the amateur market, the Fairchild camera (priced at $240) and projector ($250) are still within the means of many amateur moviemakers. Placed on the market too late to benefit from the summer seasonal upsurge in photographic equipment in 1960, the product will receive its real test of consumer accept- *(Please turn to page 447)*

What To Do About . . .

STOCKS THAT PASSED DIVIDENDS —Those where dividends are in jeopardy

By ROBERT B. SHAW

AT this season of the year, with commencement in full swing, one naturally hears the most about the fortunate students who won the prizes and are graduating with honors. None but the anxious parents are concerned about those students whose graduation is questionable, up until the last minute. So it is with stocks. All attention is seemingly focused upon the brilliant success issues whose names are on everyones' tongue. But, at the same time, thousands of investors are inwardly worried about the problem issues that have disappointed their fond hopes.

And, at this point, our fanciful analogy between stocks and students must come to an end. For parents must stick by their children, through success or failure. The unsuccessful stock, on the other hand, can be abandoned, the loss accepted, and the remaining proceeds transferred to some more promising situation. Some "mistakes" must be recognized as inevitable and the temptation to cherish them against better judgment firmly resisted. Thus, the investor's problem is to decide when hope of early recovery is no longer justified, or better prospects are present in other issues. In an effort to be of assistance the present article will discuss certain stocks that have already been forced to cut their dividends and others where the current rate has been jeopardized by reduced earnings.

A Food Company Forced To Omit

Happily, the list of dividend recalcitrants is not lengthy, and most of its entries are rather obviously speculative situations unlikely to involve conservative investors. But one exception to this statement is **General Baking,** a member of an industry usually esteemed for stability, which was forced by the sharp drop in 1960 earnings to omit its May payment, thus threatening a dividend record unbroken since 1929.

The dividend omission was, of course, merely the

Companies With Narrowing Dividend Coverage

	1959 Earnings Per Share	1959 Div. Per Share	1959 Percent Pay-Out	1960 Earnings Per Share	1960 Div. Per Share	1960 Percent Pay-Out	1st Quarter Earnings Per Share 1960	1st Quarter Earnings Per Share 1961	Price Range 1960-61	Recent Price	Ratings
Acme Steel	$1.17	$1.15	98%	$.61	$1.00	163%	$.72	[d].05	38⅞-16	22	C3
Allis-Chalmers Mfg.	2.47	1.25	50	1.12	1.50	133	.28	.15	40 -22	26	C4
American Brake Shoe	4.72	2.40	49	3.48	2.40	68	.64	.56	51⅞-35⅜	50	B2
American Rad. & S. S.	1.80	.75	41	1.11	.80	72	.28	.11	16¼-11⅓	14	C2
Bethlehem Steel	2.44	2.40	98	2.52	2.40	95	1.10	.14	57¼-37¼	44	B3
Carey (Philip) Mfg. Co.	3.26	1.70	52	2.36	1.60[2]	67	.22	.01	36 -23	30	C3
Chrysler	[d].62	1.00	—	3.61	1.50	41	1.25	[d]2.45	71⅞-37⅜	43	C4
Clark Equipment	2.61	1.12	42	1.41	1.20	85	.44	.31	46⅜-27¼	36	B3
Cone Mills	1.47	.80	54	1.03	.80	77	.31	.07	17⅜-11⅝	13	C3
Consolidated Laundries	2.05	1.30	63	1.62	1.30	80	.31[3]	.20[3]	25 -20	25	C4
Curtiss-Wright	1.71	2.25	131	1.15	1.00	87	.22	.12	31⅛-14⅝	18	D4
Eaton Mfg.	3.60	1.90	52	2.23	1.80	80	.93	.31	46⅞-28½	36	B4
Fruehauf Trailer	1.88	—	—	1.35	1.20	89	.56	.10	30⅛-17¼	26	D3
General Cable	2.71	2.00	73	2.56	2.00	78	.74	.49	45⅝-32½	39	C2
Glidden Co.	3.31	2.00	63	2.90	2.00	68	1.05[1]	.76[1]	45⅝-34½	42	C2
Houdaille Industries	1.72	1.00[2]	58	1.62	1.00[2]	61	.02	[d].29	21⅛-16¼	17	C4
Joy Mfg.	2.90	2.00	69	3.01	2.00	66	1.27[1]	.97[1]	48 -29¼	40	C2
Kaiser Alum. & Chem.	1.17	.90	77	1.20	.90	75	.41	.16	54⅞-32	44	C4
Koppers Co.	2.28	1.60	70	3.06	1.90	62	.71	.34	46⅞-34⅛	45	C2
Montgomery Ward & Co.	2.08	2.00	91	2.28	1.75	76	.14	.11	53⅜-25½	28	B2
National Acme	3.47	2.50	72	3.55	2.50	70	.79	.58	59½-40	56	C4
Rockwell-Standard Corp.	3.56	2.00	56	2.41	2.00	83	.97	.40	38⅜-27	34	C2
Ruberoid Co.	3.48	2.20	63	2.44	2.00	82	.25	.06	46¼-31¾	41	B3
Scovill Mfg. Co.	2.37	.50	21	1.23	1.00	81	.59	.20	30 -16	26	C4

d—Deficit. 1—1st 6 months. 2—Plus stock. 3—12 weeks.

tangible response to a difficult situation already long in evidence. **Although General, the second largest domestic bread baker, has enjoyed a rather steady expansion in sales volume, this has been accompanied by a steady deterioration in profit margin (a degenerative disease generally attacking corporate earnings), and earnings were actually larger a decade ago.**

The more severe 1960 drop to 14¢ a share, from 91¢ in 1959, made the previous 60¢ dividend impracticable. Although General has broadened its product line considerably, it has been unable to overcome the competition of so many rival brands, particularly those sponsored by the large food chains, and the high labor costs implicit in its retail distribution system. Prospects for early improvement are not encouraging.

More Typical Dividend Casualties

More typical of the dividend cut-backs is **Central of Georgia Ry.** This localized carrier, majority control of which the Southern is now trying to acquire from the Frisco, has too small an outside interest to deserve attention except as an example of a larger group of borderline railroads. The company has been shaky for years and dividends were only timidly resumed in 1960 after an omission of many years. But failure even to cover the preferred dividend fully terminated this feeble effort. Railroads of this quality should be avoided by all but the full-fledged speculator.

Some of the heavy machinery manufacturers were also severely affected by last year's recession. **Baldwin-Lima-Hamilton,** now no more than a minor factor in the locomotive business, experienced a ten-year low in sales volume in 1960, and was perhaps lucky to remain in the black even to the extent of 31¢ a share (vs. $1.17 the year before). Even the present 10¢ quarterly payment does not seem to be entirely secure.

National Castings, less volatile than Baldwin, was protected against too severe a let-down last year by its order backlog, but its approaching exhaustion resulted in a sharp deficit in the first quarter of the current year. The 50¢ quarterly payment was accordingly suspended, although some recovery is indicated later in the year. The stock has little basic attraction.

Two Auto Parts Companies Suffer

Overall automotive industry results were no better than mediocre last year, and several of the more marginal companies were forced into the dividend casualty group. Curiously, **Budd** enjoyed all-time record sales in 1960 and yet net was slashed, first by heavy inventory costs in the aftermath of the steel strike and then by radical pattern changes in the automotive division. The 52¢ deficit in the first quarter of the current year finally forced dividend suspension. Budd has recently lost the Ford Thunderbird business and, despite progress toward diversification, it is a high-risk situation. **Kelsey-Hayes,** although less speculative, is likely to suffer a further earnings drop in its current fiscal year, to a level below last year's $2.64 a share. Still its stock, at around 35, looks like fairly good value.

Filtrol, which has been unable to show much progress in a decade, witnessed a rather sharp sales decline last year with a concurrent drop in net to the lowest level since 1953. The company has been, of course, a victim of the glut in the petroleum refining industry, with which it is closely associated. Chances of an improvement in this area would seem to justify retention of the stock.

No Immunity in Electronics

The glamour attached to electronics and instrumentation failed to spare some companies in these lines the necessity of dividend retrenchment. Hit by a large first quarter loss right on the heels of last year's income evaporation, **Packard-Bell Electronics** recently omitted its 12½¢ quarterly payment. Nearly half of sales are dependent upon the defense and space programs, so that cutbacks last year took their toll, but the new administration's emphasis upon space research promises a reversal, and Packard has already been awarded a $3 million NASA contract for the Saturn space vehicle booster. Although selling at less than half of last year's high, the issue continues to be speculative.

Somewhat more down-to-earth, **Daystrom** was able to lift sales volume narrowly last year but still suffered a near disappearance of net income as development costs and higher overhead incurred in the hope of still larger volume ate up the profits. Although risks are high, the stock is more reasonably priced now that it is selling at a lower price-earnings ratio.

Unlike the two foregoing companies **Collins Radio** enjoyed an enormous sales advance last year which was directly reflected in earnings. In the first six months of the present fiscal year (to end July 31), however, net dropped back to $1.18 a share from $2.16 a year ago. During the latter part of 1960 deliveries were distinctly larger than bookings, with the result that the backlog was reduced $30 million to $160 million on January 31. The recent product mix has also become less favorable, with a higher proportion of less profitable business. Consequently, the 4% stock dividend of the last several years has been omitted. Vicissitudes like these should probably be considered, however, as growing pains in the case of a company like Collins. The stock is still speculative, however.

Other Companies

Several other companies deserve at least brief comment. **Eastern Air Lines'** problems, including, besides the general business let-down, the pilots' strike, the Electra disasters and excessive competition on its long-haul routes, culminated in a heavy, $1.35 a share loss in the recent first quarter. Management is capable and progressive however, and company should continue to participate in long-term growth of industry. **Copper Range** is a distinctly marginal operation, and even speculators upon a sudden shortage of the red metal would do better to look into more strongly entrenched companies. Among the variety chains, **Neisner Bros.**, which has suffered in recent years, is now carrying out an aggressive reorganization program, but prospects still can not be considered particularly intriguing. **Holland Furnace**, engaged in a highly competitive field, has little appeal. Of interest as one of the smaller companies to be involved in the recent electrical equipment price-fixing case, **I-T-E Circuit Breaker** has recently plunged deeply into the red. Although its long-term record has been satisfactory, it would not be wise to enter this situation while the industry is in such turmoil.

Anticipating Reductions

Probably more important even than deciding what to do about dividend reductions and omissions, is the attitude toward stocks where the prevailing pay-out rate is threatened by a narrowing earnings coverage. To be sure, the anticipated effect of a dividend reduction may sometimes be exaggerated; such action may be regarded as mere formal recognition of unfavorable facts already known and recognized by the market. But a reduction may also often be construed as an announcement by the management that the company's problems are not merely temporary, but basic. In any case, the adverse dividend action is a kind of red flag, advertising the company's difficulties and making the stock unpopular with investors. Hence, unless one can feel firmly that a reduction has been adequately discounted in advance, it is wise to sell stocks in which reductions are seriously threatened.

Steel Dividends A Little Shaky

Although **Acme Steel's** former $1 annual rate has already been cut to 10¢ quarterly, the safety even of the latter can not be considered assured in the light of the 1961 first quarter deficit of 5¢ a share. More economical plants just opened, offer hope of reduced expenses in 1961, but a real profit impetus must come from expanded demand for the company's specialty steels. Conservative investors should avoid the issue. Much better known **Bethlehem Steel** only covered its $2.40 dividend by the narrowest of margins both in 1959 and 1960, and obviously must enjoy a very sharp improvement over the recent first quarter's 14¢ a share before the rate can be considered safe. Although substantial earnings recovery can be taken for granted, and the company's strong financial position also supplies confidence, some reduction would not be surprising.

Machinery Looks More Secure

Since its profits peak ($6.74 a share) in 1956, **American Brake Shoe** has suffered an irregular downward trend, narrowing the coverage of its $2.40 dividend. But despite its apparent lack of growth the company has made real progress in expanding its sales base and establishing foreign affiliates. First quarter 1961 earnings of 56¢ a share were encouraging at least in a negative sense, and while full year net is not likely to be materially changed from last year's $3.48 a share the comfortable financial position suggests that the dividend is secure. Brake Shoe is now dependent upon the railroads for only slightly more than a third of its sales.

Another machinery company, **Joy Manufacturing,** has experienced a recent cycle very similar to that of Brake Shoe, with its best year in 1956-57 and an irregular decline since then. Joy was, however, more sanguine about its dividend during its prosperity, lifting it to a $3.40 rate from which it was obliged to beat a hasty retreat. Even the current $2. rate is not beyond peril. The coal industry, comprising one of Joy's major markets, will be adversely affected this year if steel does not also show greater vitality. The company's oil field equipment division also was hit badly by the post-Suez petroleum glut. Still, diversification has been broadened substantially during the past several years and the outlook for many branches of the machinery industry is encouraging. Thus, maintenance of Joy's current dividend is a reasonable expectation.

Once regarded as an automobile parts maker but now classified in the general machinery group, largely in recognition of its leadership in materials

Companies Reducing or Omitting Dividends In 1961

	Net Earnings Per Share 1959	Net Earnings Per Share 1960	1st Quarter Earnings Per Share 1960	1st Quarter Earnings Per Share 1961	Dividends Per Share 1960	Dividends Per Share Indicated 1961*	Payments Changed From	Payments Changed To	Recent Price	Range 1960-61
Allied Products	$.29	$.23	$d.21	$d.13	$.15	$.20[3]	$.20	$—[4]	9	11⅜- 6⅝
Baldwin-Lima-Hamilton	1.17	.31	.12	.04	.60	.40	.15	.10	16	17⅛-11½
Budd Co.	2.38	.96	.63	d.52	1.00	.15[3]	.15	—[4]	14	27⅞-13¾
Central of Georgia Rwy.	4.33	d1.48	d.15	d.33	1.00	—	.25Q	—[4]	42	59 -38
Collins Radio	1.95	3.04	2.16[1]	1.18[1]	—[5]	—	—[5]	—[4]	37	76 -36¼
Copper Range	1.28	d.69	d.57	d.21	.50	—	.12½	—[4]	18	24¼-12½
Daystrom, Inc.	2.48[2]	.48[2]	—	—	1.20	.30[3]	.30	—[4]	26	49⅝-25⅜
Eastern Air Lines	2.94	1.74	d.38	d1.35	1.00[6]	.25[3]	.25	—[4]	25	34 -22
Filtrol Corp.	2.74	1.97	.60	.40	1.80	1.20	.45	.30	27	39⅜-27
General Baking	.91	.14	.02	d.33	.60	.07½[3]	.07½	—[4]	7	12⅜- 7
General Contract Finance	.65	.32	.13	.09	.40	.20	.10	.05	7	8⅛- 5⅛
Holland Furnace	1.07	.11	d.54	d1.08	.60	.15[3]	.15Q	—[4]	9	13 - 8¾
I-T-E Circuit Breaker	1.99	d.36	d.008	d.52	1.00	.15[3]	.15	—[4]	20	44¼-18
Kelsey Hayes Co.	4.88	2.64	.51[1]	1.10[1]	2.40	1.60	.60	.40	35	50¾-30⅜
Kroehler Mfg. Co.	1.75	.19	.08	d.43	62½	—	.12½	—[4]	12	20¼-11⅛
Lowenstein (M.)	1.69	1.81	.71	.21	1.00	.60	.25	.15	15	20¼-14¼
National Mall. & Steel Cast.	3.17	2.11	.90	d1.13	2.00	.50[3]	.50	—[4]	28	43 -24½
Neisner Bros.	.82	.18	N.A.	N.A.	75	.40	.15	.10	14	16½- 9¾
Packard-Bell Electronics	1.74	.26	.61	d1.88	.50[6]	.12½[3]	12½	—[4]	22	39 -19¼

*—Based on latest dividend rate.
N.A.—Not available.
d—Deficit. Q—Quarterly.
1—1st 6 months.
2—Years ending 3/31/1960 & 3/31/1961.
3—Amount paid to time of omission.
4—Action deferred at last dividend meeting.
5—Paid 4% stock.
6—Plus stock.

handling apparatus, **Clark Equipment** has shown a considerably stronger growth trend than either of the two preceding companies. This did not prevent a sharp drop in earnings last year, attributed largely to inventory reductions by dealers, which left only thin coverage of the $1.20 dividend. Again, however, recent first quarter earnings provided negative encouragement—a less severe drop than had been feared. The outlook for heavy construction, upon which Clark is largely dependent, is still uncertain, but governmental projects, at least, are being accelerated. The company's recently acqquired highway trailer division, heretofore unprofitable, should be entering the black. Thus, the current dividend rate looks firm, although any further increase is remote.

Allis Chalmers presents a less reassuring picture. Despite every evidence of astute management, the company's earnings position has deteriorated rather steadily over a long period of years; considerable diversification throughout the agricultural implement, electrical apparatus and general machinery fields has provided no salvation. The longstanding $2 dividend finally had to be cut to 25¢ quarterly, and although this was lifted last year to 37½¢, the new rate was not covered last year. As 1961 first quarter earnings give no grounds for optimism and the company is deeply involved in the problems of the electrical equipment industry, the 37½¢ rate can not be regarded with very much confidence.

Chrysler and Fruehauf Dividends Not Secure

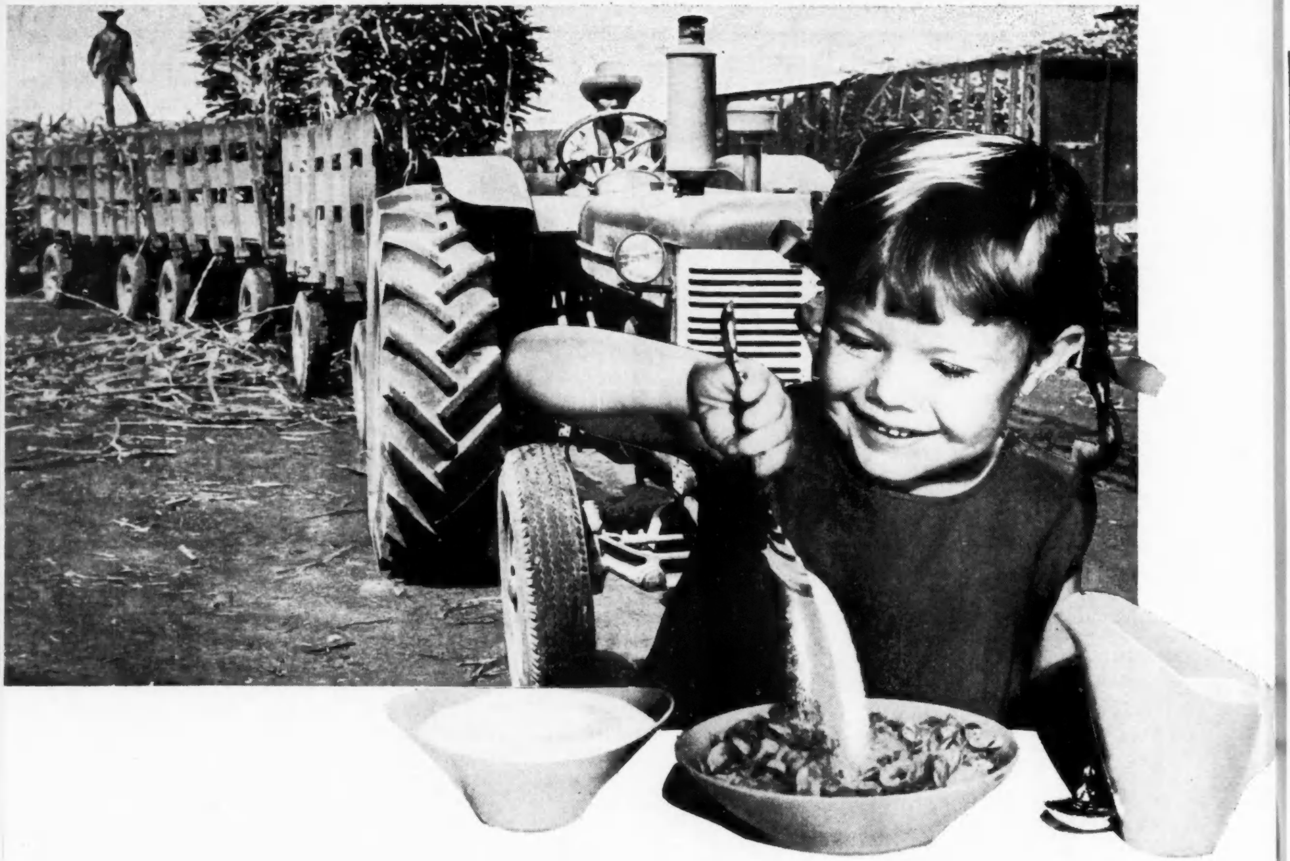
Chrysler is undoubtedly one of the most interesting companies among the group under discussion; its difficulties during the last several years has been a bonanza for the financial press. To be sure, an impressive case can be built for Chrysler on the basis of its small share issue outstanding (9 million vs 283 million for GM), and if its profit margin could ever be lifted to a level remotely approximating that of its two chief competitors, its stockholders would certainly be in the gravy. But such thoughts are mere wishful theorizing. Despite the large first quarter deficit the current 25¢ quarterly rate is reasonably secure, but repetition of last year's 50¢ extra is dependent upon an early, sharp improvement. The company's situation is so familiar to investors, however, that price is probably not dependent upon future dividend action to any important degree.

Another company which has experienced violent ups and downs, **Fruehauf Trailer,** is likewise distinctly speculative. Somehow, despite its leading position in the industry, its recent earnings trend has been quite contrary to the impressive growth of big truck rigs on the highway. Although last year's recovery in earnings to $1.88 a share was reassuring, the company may have been premature in restoring the regular 30¢ quarterly dividend rate, in the light of the recent first quarter net of only 10¢ a share. Besides the general business recession, Fruehauf has been affected by its heavy debt load and by recurrent squabbles within management. A cut-back in the current dividend is a fair expectation.

Makers of Auto Parts Follow Stable Dividend Policy

Among the auto parts manufacturers, **Rockwell-Standard** covered its $2 rate by a less than comfortable margin last year, and the drop in recent first quarter earnings to 40¢ a share may place the dividend in mild jeopardy. Relative to its industry, however, Rockwell has been characterized by high earnings stability (some might say "stagnation"). Although the automobile business is not likely to improve sufficiently in the early future to lift Rockwell's full-year earnings materially above last year's $2.41 a share, the company's history gives some confidence that the current dividend rate may be maintained.

Houdaille Industries, now broadly diversified and only about one third dependent upon the automotive industry, also has a record of dividend stability that suggests that the 25¢ quarterly rate will be maintained despite reduced coverage last year and a rather sharp loss in the *(Please turn to page 449)*



REALIGNMENTS IN SUGAR QUOTAS LOOK GOOD FOR INVESTORS

By CHARLES B. MORGAN

— New sources to take the place of Cuba — domestic expansion in beet sugar — risk involved — suppliers in Puerto Rico — Hawaii — capacity available in Dominican Republic — where opportunities exist for speculative investment

● ***"Now therefore, I, John F. Kennedy, President of the United States of America . . . . . do hereby determine that in the national interest the amount of the quotas for sugar and for liquid sugar for Cuba, pursuant to the Sugar Act of 1948, as amended, for the calendar year 1961 shall be zero . . . . ."***

WITH this proclamation by President Kennedy on March 31, 1961, a new era in the annals of U.S. sugar history was formalized. This marked the ultimate end of a chain of events tracing back to the early stirrings of the Castro revolution in the mountains of Oriente Province in the fall of 1958. At the same time, it marked the opening up of a three-million-ton potential market for all the current and would-be suppliers of sugar to the U.S. — a market equivalent to about one-third of overall domestic needs. It should be evident that sweeping changes are occurring in our sugar industry, and in view of the increased investor interest stemming from the stepped-up pace of developments, this oft-overlooked group appears to offer some interesting profit opportunities.

Dramatic Changes in Sugar Supply

Over the years, changes have occurred continuously in the sources of our sugar. But rarely has there been a year when so many or such large changes have been introduced. The table on page 436 shows the changes, from the first quotas of 1934, when the Sugar Act first went into effect, to both the beginning of 1960, and 1961. **In the years to 1960, the major gains were made by Cuba; thus the more striking comparison, 1960 to 1961, with Cuba losing all of a quota that represented about one-third of all United States requirements.**

Of course, the needs of the U.S. have not dropped

Statistical Summary of Sugar Companies

	Net Sales Fiscal 1959 (Millions)	Net Sales Fiscal 1960 (Millions)	Net Profit Margin Fiscal 1959	Net Profit Margin Fiscal 1960	Earned Per Share Fiscal 1959	Earned Per Share Fiscal 1960	Dividends Per Share 1960	Dividends Per Share Indicated 1961 *	Price Range 1960-61	Recent Price
Cuban Producers										
CUBAN AMER. SUGAR .... W.C. (mil.) '59–$13.7; '60–$9.4	$56.9[1]	$39.2[1]	1.3%	1.4%	$ .99[1]	$ .74[1]	$ .40	$ .40	23⅜-13½	17
FRANCISCO SUGAR .... W.C. (mil.) 59–$.1; '60–$N.A.	13.5[2]	[3]	d1.7	[3]	d0.66[2]	[3]	—	—	8½- 3¼	4
MANATI SUGAR .... W.C. (mil.) '59–$1.6; '60–$N.A.	11.3[4]	[3]	1.1	[3]	.30[4]	[3]	.30	—	5½- 1½	2
VERTIENTES CAMAGUEY .... W.C. (mil.) '59–$8.0; '60–$N.A.	20.9[1]	[3]	3.2	[3]	.47[1]	[3]	1.00	—	6⅜- 2	2
Dominican and Puerto Rican Producers										
CENTRAL AGUIRRE SUGAR .... W.C. (mil.) '59–$8.6; '60–$7.9	2.56[5]	15.3[5]	10.3	5.9	2.56[5]	1.21[5]	1.60	1.60	27½-21	26
FAJARDO EAST. SUGAR (6) ...... W.C. (mil.) '59–$4.5; '60–$3.6	24.6[4]	22.3[4]	1.7	d1.2	.87[4]	d1.01[6]	—	—	40¼-14	38
SOUTH P. R. SUGAR .... W.C. (mil.) '59–$9.8; '60–$12.0	35.8[1]	34.7[1]	4.9	6.1	1.33[1]	1.68[1]	.60	1.20	22¾-14	22
Beet Sugar Refiners										
AMERICAN CRYSTAL SUGAR .... W.C. (mil.) '59–$19.3; '60–$18.4	53.5[7]	56.1[7]	2.0	2.6	2.22[7]	3.37[7]	2.15	2.15	57¾-36¼	54
GREAT WESTERN SUGAR .... W.C. (mil.) '59–$40.6; '60–$41.2	107.2[8]	104.6[8]	5.5	5.7	2.71[8]	2.79[8]	1.60	1.65	39⅜-26	37
HOLLY SUGAR .... W.C. (mil.) '59–$14.6; '60–$13.6	69.2[7]	68.1[7]	3.0	3.3	2.93[7]	3.25[7]	1.35	1.40	40½-23	36
Leading Cane Refiners										
AMERICAN SUGAR REFINING .. W.C. (mil.) '59–$35.2; '60–$34.2	335.7	338.1	2.9	2.8	3.86	3.49	1.90	1.75	36¾-25	34
NATIONAL SUGAR REFINING .. W.C. (mil.) '59–$11.7; '60–$15.2	189.0	208.5	0.6	0.3	1.61	1.14	.60	—	28⅛-16½	19

*—Based on latest dividend reports.
N.A.—Not available.
d—Deficit.

1—Year ended Sept. 30.
2—Year ended Oct. 31.
3—Financial statement unavailable. Stock suspended from trading on the N. Y. Stock Exchange, but not delisted.
4—Year ended June 30.
5—Year ended July 31.
6—May sell assets to (C.) Brewer & Co.
7—Year ended 3/31/60 and 3/31/61.
8—Years ended 2/28/60 and 2/28/61.

Cuban Producers

Cuban American, along with other companies operating in Cuba, suffered seizure of its properties, including 429,000 acres of land. However, they retained a refinery near New Orleans, an interest in Florida Sugar, and a 26.5% interest in American Crystal Sugar, worth over $6 per Cuban American Share. Obviously speculative, but assets justify retention. **C4**

Francisco Sugar had its assets taken over by Cuba on August 6, 1960, and subsequently its shares were suspended from trading on the N.Y.S.E. in February of this year. **D4**

Manati Sugar was suspended from trading on the New York Stock Exchange February 20, 1961, following seizure of their assets by the Castro Government in August of last year. Present outlook highly uncertain. **D4**

Vertientes Camaguey was no exception to the Cuban seizures, and with the shares removed from the New York Exchange volume of trading has almost disappeared. No forecast of the future is possible, as the current strength of the Castro Government is difficult to judge. **D4**

Dominican and Puerto Rican Producers

Central Aguirre, second largest of the Puerto Rican cane growers, saw its earnings cut in half last year; however, earnings outlook for the year to end July 31 is improved by a larger output from this winter's crop. The loss of land to other uses, and the loss of workers to industry, will limit growth, but diversification may help. Growing of tomatoes for Libby McNeil & Libby has been encouraging. **C3**

Fajardo Eastern is the largest of the Puerto Rican sugar companies, but profits have been held down by bad weather. Shares of the company have run up on news of a merger with C. Brewer, in which shares would receive $40, for a total purchase price of about $15 million. **B4**

South Puerto Rico Sugar has often suffered from adverse weather, but at the present time the situation has improved and the dividend was recently increased from 15c to 30c quarterly. Nevertheless, 75% of production is in the Dominican Republic, and there is no indication as to when diplomatic relations with that country may be resumed. **C3**

Beet Sugar Refiners

American Crystal Sugar, 3rd largest beet processor, will benefit from removal of acreage requirements, as will other beet processors, and earnings should continue to recover from depressed levels of recent years, particularly as lower cost sugar is marketed. **B3**

Great Western Sugar is the largest of the domestic beet processors, with 19 factories. The company harvested the best crop in its history last fall, and this will have substantial impact on the earnings for the fiscal year to end Feb. 28, 1962. The shares are attractive for income and moderate appreciation at present levels. **A1**

Holly Sugar is the second largest U.S. beet company, with ten factories at the present time. The past three years have witnessed earnings increases, and further gains seem likely in view of plans to expand facilities and introduce a new process designed to increase capacity of existing plants. **A1**

Cane Sugar Refiners

American Sugar Refining is the largest domestic refiner of raw cane sugar, with a good record of earnings gains, exclusive of the loss of their Cuban properties. The stock is highly leveraged, but nevertheless the liberal dividend appears well covered and full utilization of a modern new refinery in Boston suggests earnings gains despite company estimates that first half 1960 will be below the year earlier period. **A1**

National Sugar Refining accounts for 20% of the U.S. production of refined cane sugar. Earnings have been trending downward for some time and last year they hit the lowest level since 1940. The dividend, long regarded as safe, was reduced in 1958 and 1959, and finally omited in 1960 under pressure from a tight cash position. No early resumption seems likely. **C4**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.
1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

abruptly by some 2.7 million tons, as the total initial 1961 quota might seem to imply. The fact is that this left some 3,297,195 tons to be supplied by non-quota purchase allocations, based on the estimate last fall by the Secretary of Agriculture of calendar year needs of 10 million tons. You may well ask why the difference, and how does this system normally operate?

Origin of the Quota System

The basic sugar legislation which has governed this commodity since 1934 has been both little changed and highly successful. **The original purposes have remained valid over the years: (1) to assure U.S. consumers an adequate supply at a fair price; (2) to encourage foreign trade; and (3) to provide a healthy economic climate for a competitive domestic sugar industry.**

To achieve these aims, the U.S. Tarriff Commission suggested a quota arrangement, as opposed to control only by tariff, with an estimate in the fall of each year of the next year's requirements, and an allocation of producing quotas to various areas designed to meet the full demand. It should be readily evident why such a system works well with a commodity like sugar; not only can price be kept within a relatively narrow range through the matching of supply and demand, but as fluctuations occur in the supply pattern, based on unexpected weather conditions or similar phenomena, changes in the quotas can be made rapidly to offset any gaps that develop.

Basic Sugar Quotas

(Short Tons, Raw Value)

Area	Initial 1934 Quota	Initial 1960 Quota	Initial 1961 Quota
Cuba	1,901,752	3,119,655	—
Hawaii	916,550	1,140,462	1,215,410
Philippines	1,015,186	980,000	980,000
Puerto Rico	802,842	1,192,498	1,270,865
Virgin Islands	5,470	16,261	17,330
Beet Processors	1,566,166	2,043,480	2,177,773
Mainland Cane (U.S.)	261,034	628,799	670,122
Full Duty Countries	17,000	281,845	371,305
	6,476,000	9,403,000	6,702,805

The New Sources

On June 1, the Agriculture Department assigned all but 200,000 tons, of the original estimate of 10 million tons. This meant an allocation of 1,009,120 tons, which was divided among 16 countries. For the first time, such countries as Paraguay, India, and Australia were granted the opportunity to furnish sugar to the protected U.S. market. The remainder may go to the Dominican Republic, depending on what sort of a government emerges following the assassination of Trujillo. The complete picture of the present sources of supply and the basis for their quotas and allocations to date, can be best visualized in the table on page 437.

Discouraging Outlook For Cuban Companies

The implications of the these changes are many, and of course numerous sugar companies have been affected already. Perhaps most obvious has been the impact on the companies operating in Cuba. Such well-known issues as **Guantanamo Sugar, Central Violeta, Francisco Sugar, Manati,** and **Vertientes-Camaguey** have witnessed the seizure of their assets, with their shares subsequently de-listed or suspended from trading on the New York Exchange. Others, such as **Cuban American Sugar,** have been able to continue operations on a much-reduced level on the basis of phases of their business based in the United States.

At this stage, we can't begin to forecast what will develop in Cuba, although the failure of the recent invasion has certainly strengthened Castro's hand. As long as he remains in power the outlook for compensation for seized assets is dim at best. Under the law which authorized seizure, contributions to a compensation fund would consist of 25% of the foreign exchange proceeds to Cuba from its sales of Sugar to the United States, to the extent that these would exceed 3 million Spanish long tons, an amount equivalent to 6,813,800,000 pounds, in a given year at an F.A.S. price not less than 5¾¢ (U.S.) per pound. Sales of this volume would be highly unlikely even under normal conditions. Our purchases of Cuban sugar have exceeded 3 million Spanish long tons only three times since the first sugar legislation was enacted in 1934. Furthermore, the U.S. price has never averaged 5.75¢ (F.A.S.) in any year during that time. And, as we know, this country is making no purchases of Cuban sugar whatsoever at the present time.

If this weren't bad enough, the terms of compensation which might be made are equally discouraging. Any payments would be in long-term Cuban Government bonds, with interest paid from the fund and cancelled in any year not earned. There have been no indications as to whether such bonds would be negotiable, and also there is some doubt as to the recognition of such debt by any new regime that might succeed in overthrowing the present Cuban government.

All of which leads us to conclude that the shares of Cuban companies are extremely speculative. Of course, they did show some strength as the recent ill-fated invasion was in process, and such an event could recur; but the timing is impossible to predict and in the interim, the shares appear best avoided by all but the rashest speculator.

More Sugar from Beets

All the excitement over Cuba and the Dominican Republic have focused investor attention as never before on the domestic beet sugar industry. What is the actual potential of this segment, and what is the likelihood of its coming to fruition?

In years past, domestic beet sugar production has supplied about one-fourth of our sugar needs. In the past five years, its share ranged from a low of 21.7% to a high of 24.8%, based on quota allocation. **The industry has prided itself on rapidly improving technology which has led to increased productivity and efficiency. In the last ten years, for example, acreage yields increased from 14.7 tons per acre in 1950 to 18.8 tons per acre in 1959. At the present time, it is estimated that beet marketings in 1961 will range from 2.4 to 2.45 million tons, a figure which reflects almost full utilization of existing plants.**

This represents the output of 22 states now producing beets (actually, 16 states represent 99% of the output) processed in sixty-three factories. These

are limited to about four months of operation, as beets do not lend themselves to lengthy storage; **thus, to extend production to any significant extent, the industry will have to invest heavily in new facilities. New plants would cost in the neighborhood of $15 million, so it is easy to see why companies in this field will probably wait for more permanent legislation than the current amendment to the 1948 Sugar Act, which expires June 30, 1962, before committing large funds to expansion purposes.**

Favorably Situated Beet Processors

Some companies are going ahead with such plans anyway, notably **Spreckels,** (a subsidiary of American Sugar Refining) with a $16 million facility to have a 1,000,000 pound per day capacity scheduled to begin processing in the summer of 1963; and **Holly Sugar,** currently the second largest beet processor, which is expanding a number of its facilities. Holly has developed a system for processing beets into syrup for temporary storage, allowing the doubling of capacity at half the cost of duplicating present facilities.

Other companies favorably situated are **Great Western Sugar,** the largest component, currently benefiting from marketing of the highest quality beet crop in its history, harvested last fall. The shares have reacted somewhat from their high as sugar prices have fallen from levels preceding the June 1 quota allocations, and now have appeal for longer range gains coupled with income. Greater beet plantings will not, of course, be reflected in earnings until 1962. **American Crystal Sugar,** third largest, and **Amalgamated Sugar,** fourth, are also good vehicles for participating in the group. Amalgamated shares now enjoy a better market than in many years, following a 3-for-1 split in January.

1961 Sugar Quotas and Authorized Non-Quota Purchase Allocations

Area and Country	Basic Calender Year Quotas	Non-Quota Purchase Allocations: Authorized Previously	Non-Quota Purchase Allocations: Authorized June 1	Total
	(Short tons, raw value)			
Domestic Beet Sugar	2,177,773			2,177,773
Mainland Cane Sugar	670,122			670,122
Hawaii	1,215,410			1,215,410
Puerto Rico	1,270,865			1,270,865
Virgin Islands	17,330			17,330
Republic of the Philippines	980,000	340,731		1,320,731
Peru	121,507	544,870		666,377
Dominican Republic	111,157	222,723		333,880
Mexico	95,409	530,943	58,648	685,000
Nicaragua	17,471	25,897		43,368
Haiti	8,268	27,005	10,000	45,273
Netherlands	4,149	1,463	4,388	10,000
China (Formosa)	3,980	91,270	94,778	190,028
Panama	3,980	6,020		10,000
Costa Rica	3,968	16,282	10,000	30,250
Canada	631	1,266		1,897
United Kingdom	516	1,034		1,550
Belgium	182	361	1,092	1,635
Hong Kong	3	19	8	30
Federation of the West Indies and Br. Guiana	84	75,717	190,206	266,007
El Salvador		12,000		12,000
Guatemala		12,000	5,000	17,000
Brazil		111,474	225,000	336,474
Ecuador		21,000	15,000	36,000
Colombia		21,000	25,000	46,000
French West Indies		25,000	50,000	75,000
Australia			90,000	90,000
Paraguay			5,000	5,000
India			225,000	225,000
Sub-Totals	6,702,805	2,088,075	1,009,120	9,800,000
NOT AUTHORIZED FOR PURCHASE AT THIS TIME				200,000
TOTAL				10,000,000

Domestic Cane

As can be seen from the quota allocation (Table on page 436) cane grown on the U.S. mainland is of minor importance in the overall picture. Nevertheless, such companies as **U.S. Sugar,** with important production in Florida, and **South Coast Corp.** in Louisiana will derive some benefit from increased emphasis on domestic production. The climate in other areas precludes much expansion into other states, and increased plantings will take some time to translate into earnings, but nevertheless retention of domestic cane growing commitments appears warranted.

The Cane Refiners

The raw sugar brought into the U.S. from all the varied sources replacing Cuba—along with the raws from normal channels—will be processed, as usual, by the domestic refiners, a group dominated by **American Sugar Refining,** accounting for about 30% of refined cane deliveries. **National Sugar Refining** follows, with roughly half this volume. Both companies have been faced with similar supply problems and stiff competition, but American has far outdistanced its competitor in terms of profitability. This has been done primarily by recognizing the trends to bulk sugar deliveries and the need for modern, labor-saving plants and equipment. American's capital expenditures in the past five years have totaled some $85.8 million, compared with $26.8 in the previous five year period, and contrasted with a $3 million annual rate for **National** in 1960 and 1961.

Cuban assets of American have been written off to the tune of about $15 million and, of course, contributed nothing to earnings last year, but despite start-up costs on a new 2 million-pound-per-day Boston refinery earnings of $3.49 were reported, down only moderately from the $3.86 of 1959. **National,** on the other hand, has been faced with declining earnings for some time, and after reducing the dividend, finally omitted payments altogether in May of 1960, as earnings fell to the lowest level in twenty years.

What About Puerto Rico and Hawaii?

With the U.S. demand growing at a rate of about 150,000 tons a year, despite the already high level of consumption (about 95 pounds per person annually) additional supplies will have to come from somewhere. **While both** *(Please turn to page 450)*

FOR PROFIT AND INCOME

For The Record

At this time it may be worth repeating that the "traditional summer rise" is more of a statistical curiosity than a matter of investment importance. It is a fact that, with few exceptions, the July or August highs in the averages have exceded May closing levels—widely in a few instances, moderately in most, slightly in some. But the percentage in "playing" purely for a summer gain is not inviting, since it involves guesswork in timing of purchases and sales within the period; and any realized profit on the in-and-out operation will be short term and therefore taxable as such. If you want to get out of a stock which is acting about in line with the market, upward tendencies at some time during the summer might be worth waiting for. If an issue is performing badly, there are usually good reasons for it and no summer rise in the averages will change them. In such a case, why wait? While short-term market trends are always highly conjectural, our general feeling is that the market's upside potential this summer is limited at best.

Inside The Market

Stock groups currently performing better than the market are principally aircraft, automobiles and auto parts, building materials, chemicals, department stores, dairy products, banks, insurance, gas utilities, textiles, tires and tobaccos. Groups under some pressure at this writing include air lines, copper, drugs, electrical equipment, baking, finance companies, machinery, metal fabricating, motion pictures, office equipment, oils and steels.

Strong

Some individual stocks reflecting good demand at this writing are: American Hardware, American Natural Gas, American Tobacco, Argo Oil, Armour, Celanese, Copeland, Firestone, Florida Power & Light, Public Service of Indiana, Quaker Oats, Reynolds Tobacco, Gimbel Bros., Marshall Field, Grumman Aircraft, Ingersoll-Rand, Ideal Cement and Oklahoma Gas & Electric.

Soft

Stocks under significant pressure in recent trading sessions

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Chickasha Cotton Oil	9 mos. Mar. 31	$1.81	$ .98
Household Finance	Quar. Mar. 31	.75	.65
International Tel. & Tel.	Quar. Mar. 31	.42	.38
Kayser-Roth Corp.	Quar. Mar. 31	.52	.49
Ling-Temco Electronics	Quar. Mar. 31	.24	.13
Archer-Daniels-Midland	9 mos. Mar. 31	1.83	1.65
Twin City Rapid Transit	4 mos. Apr. 30	.46	.20
Pet Milk Co.	Quar. Mar. 31	.35	.21
Plymouth Oil	Quar. Mar. 31	.43	.11
United Electric Coal Cos.	9 mos. Apr. 30	2.97	2.13

up to this writing include: American Machine & Fdry., Barber Oil, Baxter Laboratories, Bendix Corp., Collins Radio, Filtrol, Great Northern Railway, Lehigh Portland Cement, Lily Tulip Cup, Montgomery Ward, Pittsburgh Plate Glass, Parke Davis, Swift and Transition.

Who Is Selling?

Probably one of the various reasons for market unsettlement at this time is the psychological effect of the increased number of secondary offerings — stock distributions too large to be handled in the usual auction market. Some of this selling is by investment companies, some by big individual holders. In most cases their identities are not revealed at the time, although reports will be made later by any sellers having the legal status of "insiders". Large secondary offerings since mid-May have included blocks of the following stocks: U. S. Vitamin, San Diego Gas, Holt Rinehart, U. S. Plywood, Sinclair Oil, American Broadcasting-Paramount, American Machine & Fdry., Corn Products, DeSoto Chemical, Parke Davis, Union Bag-Camp Paper. Two large ones coming soon are 2,750,000 shares of Ford Motor, representing the fourth distribution in recent years from holdings of the Ford Foundation; and 1,670,000 shares of Gulf Oil to be sold by several of the Mellon family charitable foundations.

Insiders

Latest official reports of insider selling involve the following stocks, among others: American Motors, Case, Cessna Aircraft, Coca-Cola, Cudahy Packing, General Dynamics, Publicker Industries, Republic Corp., Seaboard Finance, Standard-Kollsman, Standard Packaging and Upjohn Company. On the other hand, there has been some non-option insider buying of Beech-Nut Life Savers and Seeman Bros.

Retail Stocks

Typical of the times, Safeway Stores, one of the largest food-store chains, is considering moving into the discount store field in a protective effort, since various discount merchants have been selling food items at a loss to lure customers into their stores. May Department Stores has decided to build a large number of new outlets aimed at combining the features of department stores and discount stores. Heretofore specializing in maternity garments and odd-size apparel for fat, thin, tall or short women, Lane Bryant is thinking of diluting this advantage by adding discount stores. The more we see of this, the less confidence do we have in longer-range profits potentials in retailing. The end result figures to be very thin margins for all concerned, especially since the suburban shopping-center opportunities have by now been largely exploited. On a basic view, food store chains, drug store chains, variety chains, and appliance-tire-hardware chains appear among the more vulnerable. These and some of the less successful department store chains will have to run fast and spend a lot of expansion-improvement money to stay where they are. Look over your retail stocks and consider some selective profit taking.

A Sound Buy

Reasonably priced stocks are hard to find today, but there are some here and there. One is Electrolux, traded over the counter and now around 36 bid. The company is the largest maker of vacuum cleaners. It also makes floor polishers, waxers and other items. How can a company thrive in this competitive field? Aside from efficient manufacturing, the answer is door-to-door distribution by commission salesmen only, avoiding retail store channels, middle men, etc. It is the same answer that has made Avon Products the top-rated growth stock in the field of cosmetics and toiletries. Electrolux earned $1.28 a share in 1957, $1.79 in the recession year 1958, $2.47 in 1959, $2.66 in the recession year 1960, and $0.75 in the 1961 first quarter, against $0.61 a year earlier. Maintenance of growth in this business revival year would seem highly probable, suggesting full year profit around $3.25 a share and a boost in the $1.20 dividend rate. The stock has a basis for working higher over a period of time as its proven merit, not now widely known, gets more recognition.

"Special Situations"

A "special situation" in Wall Street semantics is supposed to be a promising, if not "hot", stock of a company which is not widely known. One of the hot ones of recent years was Ampex, maker of magnetic tape recording equipment. It was variously called a "science" stock or a "fast-growth" stock. Earnings went from a fraction of a cent a share in 1953 to 55 cents in the fiscal year ended April 30, 1960. The stock went from 1 in 1955 to a high of 45⅝ in 1959, at which it was selling around 82 times earnings. Profits were supposed to grow indefinitely—but the company lost money in the 1961 fiscal year and now there has been a top management change. At 21, the stock is off about 54% from its high. Nobody calls it a special situation today. The moral is: don't speculate in stocks based on "sophisticated" products that you can really know nothing about. Yet this issue is far less speculative than much of the "special-situation" junk that people have recently been clamoring to buy on new over-the-counter offerings. When the rug is pulled here, holders will know they have been in a real bust.

Atlas Corp.

Speaking of special situations. Atlas is an investment company specializing in them and presumed to have smart, professional management for that purpose. It

(Please turn to page 451)

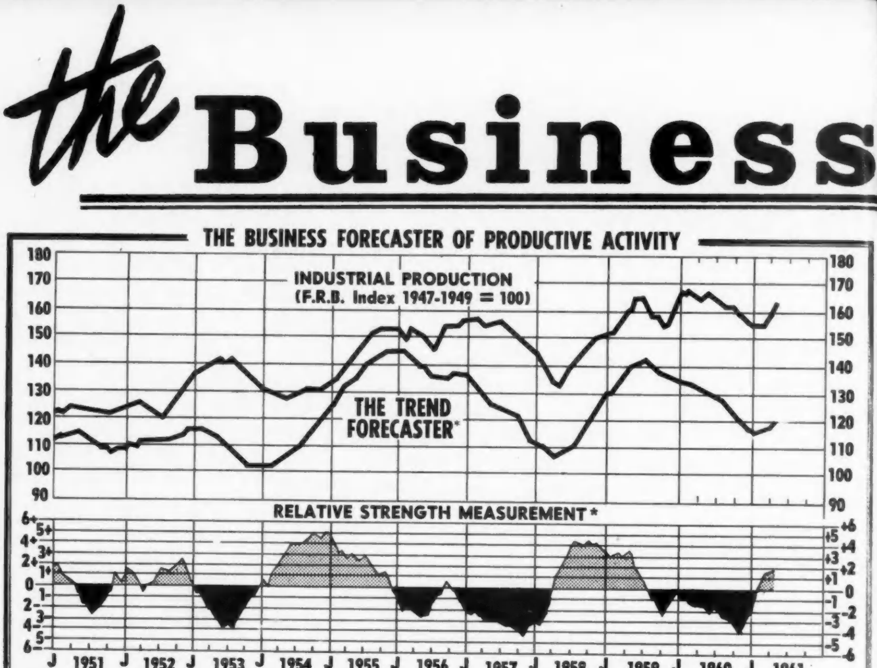
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Gimbel Brothers	Quar. Apr. 30	$ .68	$ .76
Lionel Corp.	Quar. Mar. 31	.03	.39
Automatic Canteen of Amer.	24 weeks Mar. 18	.30	.39
Bendix Corp.	Quar. Mar. 31	.90	1.10
General Finance Corp.	Quar. Mar. 31	.50	.70
Mack Trucks	Quar. Mar. 31	.48	1.01
Curtiss-Wright Corp.	Quar. Mar. 31	.12	.22
Sunbeam Corp.	52 weeks Mar. 23	2.51	3.62
Western Maryland Rwy.	4 mos. Apr. 30	.09	1.03
Decca Records, Inc.	Quar. Mar. 31	.75	1.54

the Business A

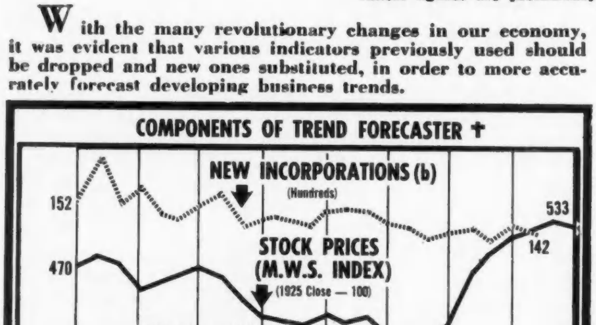
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

A certain amount of irregularity has recently developed in some of the leading indicators, although it has not affected their longer-term trends to any extent as yet. In the latest month, there was an even split in the components of the Trend Forecaster, with four increases and the same number of declines. Month-to-month gains were chalked up by new orders for durables, housing starts, hours worked and liabilities of business failures (inverted), while setbacks were noted for stock prices, nonresidential construction contract awards, raw industrial commodity prices and new incorporations.

Although half of the indicators were declining in the latest month, the weakness has not been pronounced enough to affect the Relative Strength Measure, which moved ahead slightly, to reach the plus 2 level. This measure has now been rising for six months and has advanced by approximately the same amount as in the upturn from the 1957 low. The pace of advance, however, has slowed considerably in the last two months and if it does not pick up speed soon, it will indicate that the business recovery will be very mild.

Analyst

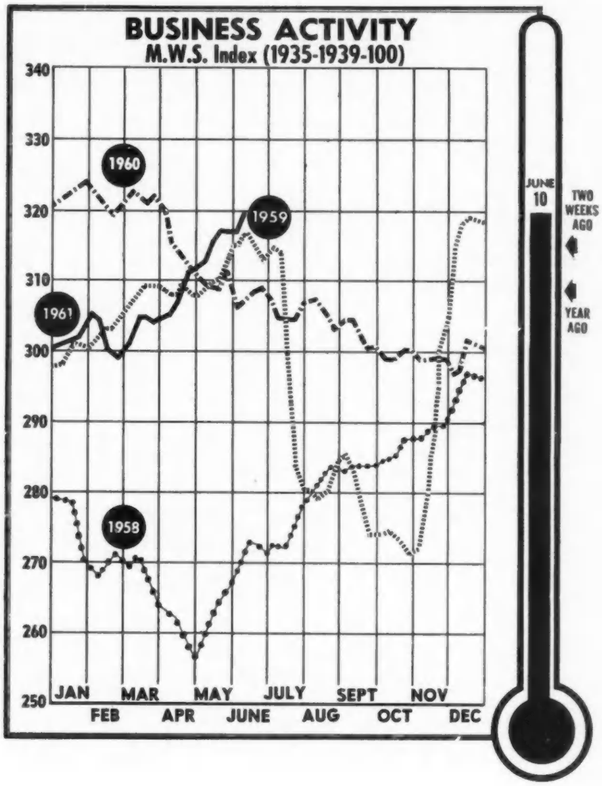
CONCLUSIONS IN BRIEF

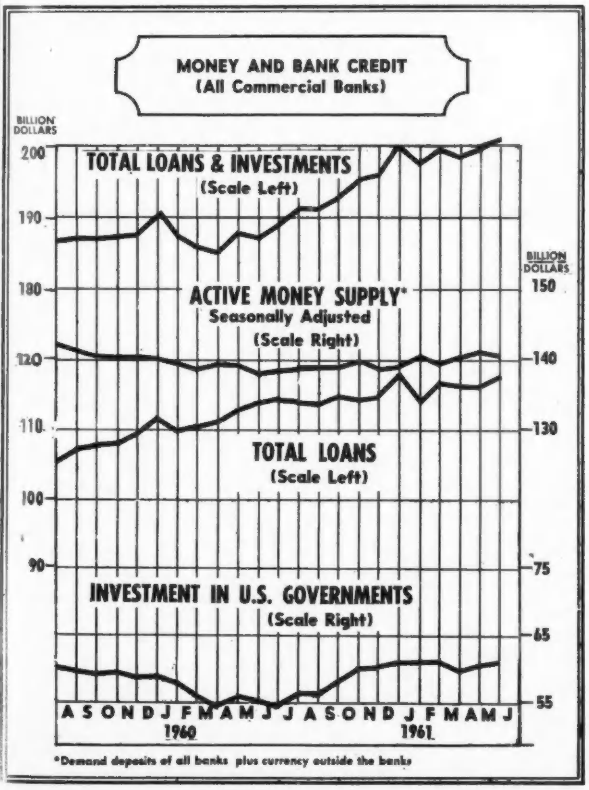
PRODUCTION—Rise in output now losing some of its steam, with both and auto and steel makers slowing down a bit. Production in several industries is running ahead of consumption and executives are incline dto hold the reins on output until final demand does some vatching up.

TRADE—Consumer caution still prevails as we enter the second half. Demand for soft goods now improving but auto sales have dipped from high levels of May. Spending by the public should pick up soon, however, in line with the recent healthy rise in income.

MONEY & CREDIT—Bond prices have been drifting lower in recent weeks, under pressure of heavy borrowing. Look for further weakness in fixed income securities in the months ahead as Federal borrowing moves into high gear.

COMMODITIES—Spotty weakness still evident in commodity markets, and industries with large excess capacity are most affected. Greater stability should develop as the business recovery continues, but no imminent rise in prices is to be expected.





LOOKING back from the vantage point of midyear, it is evident that although the economy has had a sizeable recovery from the lows reached last winter, the over-all picture still leaves something to be desired. What has happened is that some sectors have experienced a strong upswing while others are still bumping along not far from the bottom. The lopsided nature of the advance has worried some business observers, although it may be nothing more serious than the usual leads and lags that develop in every period of expansion.

At this early stage of the recovery, it is impossible to determine whether existing imbalances pose any serious threat to the upturn. Nevertheless, a review of the areas of strength or weakness should give us a better perspective on the outlook.

The handiest guide to the state of business is production, and this indicator gives clear evidence of the improvement that has taken place in the past few months. After moving sidewise during the winter, industrial output rose 5% in the short space of two months, a rate of gain that can hardly be maintained for long. In fact, at least a temporary leveling-off is now developing, with steel production easing slightly and the auto industry planning to taper off its output in the near future, in order to prepare for the introduction of 1962 models.

The slower rate of gain in output that is now taking place, reflects not only the usual summer lull

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	May	164	160	167
Durable Goods Mfr.	1947-'9-100	May	163	158	166
Nondurable Goods Mfr.	1947-'9-100	May	162	159	161
Mining	1947-'9-100	May	128	128	127
RETAIL SALES*	$ Billions	May	18.1	17.9	18.4
Durable Goods	$ Billions	May	5.6	5.4	6.0
Nondurable Goods	$ Billions	May	12.5	12.5	12.4
Dep't Store Sales	1947-'9-100	May	145	148	141
MANUFACTURERS'					
New Orders—Total*	$ Billions	Apr.	30.7	29.9	30.4
Durable Goods	$ Billions	Apr.	14.6	13.8	14.5
Nondurable Goods	$ Billions	Apr.	16.1	16.0	15.9
Shipments*	$ Billions	Apr.	30.2	29.6	31.0
Durable Goods	$ Billions	Apr.	14.2	13.7	15.0
Nondurable Goods	$ Billions	Apr.	16.0	15.9	16.0
BUSINESS INVENTORIES, END. MO.*	$ Billions	Apr.	91.1	91.0	93.2
Manufacturers'	$ Billions	Apr.	53.4	53.3	55.0
Wholesalers'	$ Billions	Apr.	13.3	13.3	13.1
Retailers'	$ Billions	Apr.	24.4	24.4	25.2
Dept. Store Stocks	1947-'9-100	Apr.	162	161	158
CONSTRUCTION TOTAL—†	$ Billions	May	56.5	55.3	55.3
Private	$ Billions	May	39.3	38.8	38.9
Residential	$ Billions	May	21.7	21.3	22.2
All Other	$ Billions	May	17.6	17.5	16.7
Housing Starts*—a	Thousands	May	1298	1200	1333
Contract Awards, Residential—b	$ Millions	May	1554	1454	1453
All Other—b	$ Millions	May	1948	1843	1884
EMPLOYMENT					
Total Civilian	Millions	May	66.8	65.7	66.3
Non-farm*	Millions	May	52.7	52.5	53.1
Government*	Millions	May	8.7	8.7	8.4
Trade*	Millions	May	11.6	11.5	11.7
Factory*	Millions	May	11.8	11.6	12.3
Hours Worked*	Hours	May	39.8	39.6	40.1
Hourly Earnings	Dollars	May	2.34	2.33	2.29
Weekly Earnings	Dollars	May	92.66	91.57	91.37
PERSONAL INCOME*	$ Billions	May	414	410	405
Wages & Salaries	$ Billions	May	277	274	274
Proprietors' Incomes	$ Billions	May	62	61	61
Interest & Dividends	$ Billions	May	42	42	40
Transfer Payments	$ Billions	May	33	32	28
Farm Income	$ Billions	May	17	17	16
CONSUMER PRICES	1947-'9-100	Apr.	127.5	127.5	126.2
Food	1947-'9-100	Apr.	121.2	121.2	118.5
Clothing	1947-'9-100	Apr.	109.5	109.8	108.9
Housing	1947-'9-100	Apr.	132.3	132.5	131.4
MONEY & CREDIT					
All Demand Deposits*—u	$ Billions	May	112.3	113.3	109.3
Bank Debits*—g	$ Billions	May	103.0	97.5	98.0
Business Loans Outstanding—c, u	$ Billions	May	31.5	31.5	31.4
Instalment Credit Extended*—u	$ Billions	Apr.	3.9	4.0	4.5
Instalment Credit Repaid*—u	$ Billions	Apr.	4.0	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Apr.	5.1	8.5	5.1
Budget Expenditures	$ Billions	Apr.	6.5	7.0	6.0
Defense Expenditures	$ Billions	Apr.	3.8	4.3	3.7
Surplus (Def) cum from 7/1	$ Billions	Apr.	(6.0)	(4.7)	(3.6)

PRESENT POSITION AND OUTLOOK

in activity, but also the necessity for manufacturers to take a breather while other sectors of the economy catch up with the rise in production.

There is certainly cause for conjecture as to why production spurted so sharply in April and May, apparently outracing the sources of final demand on which it ultimately depends for sustenance. A major role in this upturn was undoubtedly played by the Government, both in actual spending increases and by the clear prospect for further gains in the months ahead. By April, businessmen apparently became convinced that this spending, plus signs of resurgence in other sectors, meant that a recovery was in the making. Inventories had fallen sharply in March and there was a general feeling that stocks on hand would be inadequate for a period of expansion. Fear of the inflationary effects of deficit spending also spurred businessmen to increase purchases before prices rose sharply. As a result, orders were placed in larger volume, production spurted and inventory policy swung from liquidation to at least moderate accumulation.

With this sequence of events in mind, let us examine the far from uniform pattern of recovery in other sectors of the economy. Government spending and construction outlays have moved up nicely while new orders received by manufacturers have been especially strong. Capital expenditures, on the other hand, have thus far failed to move up at all, and consumer demand has been rather disappointing.

Retail sales in May, for instance, were only $300 million above the recession low, in sharp contrast to their action in the previous recovery which started in April, 1958. Three months after that bottom, retail sales had risen by $600 million although the gain in production was roughly the same as in the current upturn. The consumer, of course, may even now be planning a sharp increase in his outlays in the second half. Certainly, the $7.5 billion upswing in personal income that has taken place since February is an encouraging development. Nevertheless, his recent caution is understandable, in the

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter I	1960 Quarter IV	1960 Quarter III	1960 Quarter I
GROSS NATIONAL PRODUCT	499.5	503.5	503.5	501.3
Personal Consumption	329.0	330.8	328.3	323.3
Private Domestic Invest.	61.0	66.0	70.8	79.3
Net Exports	5.0	4.6	3.7	1.2
Government Purchases	104.5	102.1	100.7	97.5
Federal	54.5	53.3	52.7	51.8
State & Local	50.0	48.8	48.0	45.7
PERSONAL INCOME	407.5	408.5	408.0	396.2
Tax & Nontax Payments	50.4	50.4	50.5	49.2
Disposable Income	357.2	358.1	357.5	347.0
Consumption Expenditures	329.0	330.8	328.3	323.3
Personal Saving—d	28.1	27.2	29.2	23.7
CORPORATE PRE-TAX PROFITS		40.7	41.5	48.8
Corporate Taxes		19.8	20.3	23.8
Corporate Net Profit		20.8	21.3	25.0
Dividend Payments	14.0	14.1	14.0	13.9
Retained Earnings		6.7	7.3	11.0
PLANT & EQUIPMENT OUTLAYS	34.4	35.5	35.9	35.2

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	June 10	319.8	316.8	307.3
MWS Index—Per capita*	1935-'9-100	June 10	227.8	225.6	222.4
Steel Production Index*	1957-'9-100	June 10	109.6	110.1	94.3
Auto and Truck Production	Thousands	June 17	162	162	173
Paperboard Production	Thousand Tons	June 10	332	301	327
Paperboard New Orders	Thousand Tons	June 10	352	317	329
Electric Power Output*	1947-'49-100	June 10	293	282	277
Freight Carloadings	Thousand Cars	June 10	593	531	648
Engineerings Constr. Awards	$ Millions	June 15	403	662	583
Department Store Sales	1947-'9-100	June 10	151	132	144
Demand Deposits—c	$ Billions	June 7	62.2	62.1	N.A.
Business Failures—s	Number	June 8	349	254	283

PRESENT POSITION AND OUTLOOK

light of an unemployment rate that is still at a high 6.9% of the labor force and a level of consumer debt that is relatively burdensome. In time, however, a high level of income will enable the public to whittle down its debt and give it greater freedom to increase its outlays.

Recent trends thus reveal the uneven nature of the current recovery. This in itself is not necessarily a cause for concern as similar irregularities have developed in previous expansions. Looking ahead, prospects for a resumption of the advance appear encouraging. Government spending will increase further in the months ahead and businessmen are planning to increase their capital spending in the third quarter. Although inventories started to rise very early in this recovery, thus dissipating much of the stimulus that they were expected to supply later in the cycle, new orders for durable goods have moved up sharply and order backlogs are rising, providing fuel for further business expansion. It is true that industries with large excess capacity have been cutting prices and thus reducing their profit margins, but there is also a

(Please turn to page 451)

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 June 9	1961 June 16
Composite Average	550.0	410.9	541.9	528.0
4 Agricultural Implements	497.2	346.4	458.6	454.8
3 Air Cond. ('53 Cl.—100)	176.9	105.8	169.5	168.2
10 Aircraft & Missiles	1329.2	861.9	1275.6	1232.7
7 Airlines ('27 Cl.—100)	1163.6	736.7	1090.4	1033.4
4 Aluminum ('53 Cl.—100)	521.3	354.5	453.6	441.5
5 Amusements	427.0	209.3	408.4	392.9
5 Automobile Accessories	531.1	401.0	483.6	471.4
5 Automobiles	157.0	90.8	106.2	104.4
3 Baking ('26 Cl.—100)	44.6	34.9	41.0	39.8
4 Business Machines	2008.2	1159.1	1877.8	1825.6
6 Chemicals	887.1	657.3	887.1	857.3
3 Coal Mining	38.4	27.2	36.7	36.4
4 Communications	257.6	199.9	235.8	229.2
9 Construction	231.8	143.3	230.1	230.1
5 Container	1074.3	824.6	1031.0	1005.0
5 Copper Mining	399.3	275.4	380.1	363.5
2 Dairy Products	232.4	146.8	222.3	218.2
5 Department Stores	188.8	135.2	188.8	188.8
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	442.1	422.5
5 Elect. Eqp. ('53 Cl.—100)	395.6	310.7	388.7	371.5
3 Finance Companies	1027.5	648.8	947.2	931.1
5 Food Brands	763.9	419.3	758.3	713.7
3 Food Stores	326.0	232.1	305.8	303.2

(Nov. 14, 1936 Cl.—100)	High	Low	June 9	June 16
High Priced Stocks	336.4	262.7	334.4	326.6
Low Priced Stocks	729.8	527.6	710.8	688.9
5 Gold Mining	1226.0	810.8	1007.0	974.2
4 Investment Trusts	170.6	136.5	165.1	162.3
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1502.0	1478.5
7 Machinery	647.3	402.9	623.0	593.8
3 Mail Order	494.2	364.2	449.7	441.6
4 Meat Packing	298.3	223.9	282.7	282.7
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	195.2	195.2
9 Metals, Miscellaneous	449.8	313.3	439.8	429.7
4 Paper	1237.1	867.3	1100.0	1011.6
16 Petroleum	828.6	609.0	800.0	785.7
16 Public Utilities	472.4	341.6	460.3	456.3
6 Railroad Equipment	110.9	75.8	108.5	108.5
17 Railroads	70.1	49.9	57.6	55.5
3 Soft Drinks	1096.6	690.3	1096.6	1077.9
11 Steel & Iron	464.9	325.4	403.9	386.9
4 Sugar	100.9	63.0	84.9	82.9
2 Sulphur	874.7	563.1	860.6	839.4
11 TV & Electron. ('27—100)	130.4	86.8	128.5	120.8
5 Textiles	258.4	183.3	262.3	254.5
3 Tires & Rubber	255.9	170.6	220.8	217.2
5 Tobacco	284.6	182.5	284.6	282.3
3 Variety Stores	398.9	349.3	398.9	388.3
16 Unclassifd (49 Cl. — 100)	337.7	224.0	323.6	321.3

H—New High for 1960-1961.

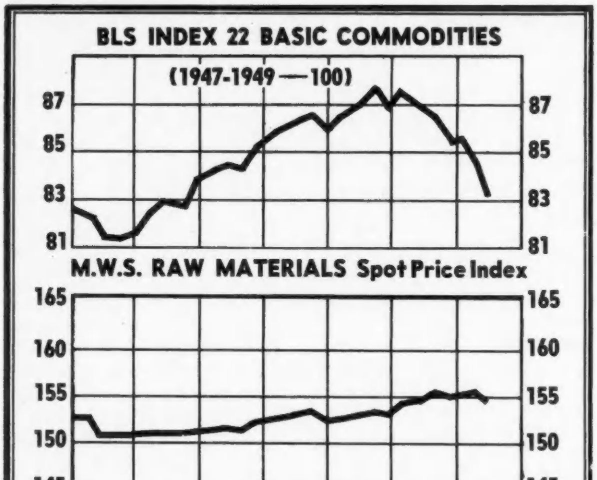
Trend of Commodities

SPOT MARKETS—Sensitive commodity prices continued to decline on balance in the two weeks ending June 16, although some industrial raw materials did better. The BLS daily price index of 22 commodities fell 2.8% during the period, with foods under the greatest pressure. Among industrial raw materials, the textiles and fibres component was slightly lower but metals held their own.

Looking at the broad range of commodities, the general price level has continued to ease in recent weeks due to price reductions in a few commodities where excess capacity is a problem. Price cuts have hit certain types of steel, paper, a few chemicals and some other products. The reductions, however, have been made with an eye to spurring demand, and they could well have this result under present conditions of improving business.

FUTURES MARKETS—Most commodity futures were under selling pressure in the two weeks ending June 16, although reductions were moderate in most cases. Corn, oats, soybeans, lard, wool, sugar, coffee, cocoa, hides, rubber and copper all declined while only wheat and cotton advanced. The Dow-Jones Futures Index lost 1.1 points, to close at 144.8, where it had surrendered almost half of the January to May advance.

Wheat was one of the few commodities to exhibit firmness in the period under review. September wheat gained a cent to close at 191⅜, not far from the high of early May. Harvesting is now beginning to pick up speed, although a good part of the early wheat run has been absorbed by exports and the loan program. The month of June has usually been a good time to buy the bread grain and this may be true again this year, from present indications.



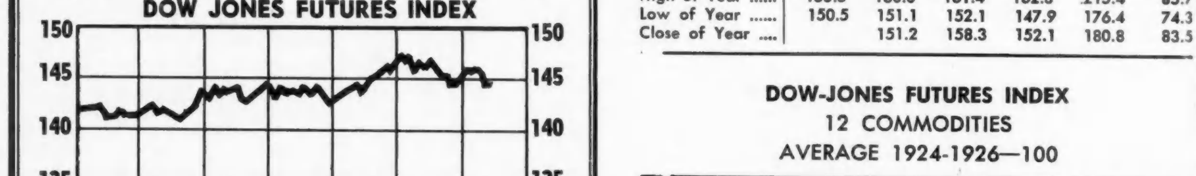
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	June 13	118.8	118.9	119.5	60.2
Farm Products	June 13	86.3	86.5	89.0	51.0
Non-Farm Products	June 13	127.8	127.8	128.2	67.0
22 Sensitive Commodities	June 16	83.1	85.5	85.3	53.0
9 Foods	June 16	74.7	77.1	77.0	46.5
13 Raw Ind'l. Materials	June 16	89.3	91.7	91.4	58.3
5 Metals	June 16	95.5	95.3	92.6	54.6
4 Textiles	June 16	80.4	80.6	80.7	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	155.5	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	147.7	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



Expose Of Illicit Practices Distorting Stock Prices And Unbalancing The Market

(Continued from page 410)

to report shady deals when they are presented. Despite these drawbacks the S.E.C. has more investigations under way now than at any time in its history. But it is unlikely to uncover more than a fraction of the undercover practices besetting Wall Street.

In some cases, as in factoring and bank lending on securities, the legal boundaries are so vague or the problem of enforcement so difficult, that the only truly effective regulation is the glaring light of publicity. Prosecutions can follow when specific fraud occurs, but little can be done in advance to stop these practices.

Difficulty of Suppressing Pools

Other tricks are even more difficult to stop. They occur outside the jurisdiction of American authorities. Pooling operations, for example, are a type of manipulation designed to create an illusion of exceptionally high activity in a stock. The pooling syndicate buys and sells among its own members for little cost other than commissions. The S.E.C. can trace all such transactions within the U.S. if it suspects a pooling operation, but if a stock is listed both in New York and Toronto, for example, many of the transactions can take place outside the U.S. where the regulatory agency has no jurisdiction. Actually as it happens, close cooperation prevails between American and Canadian authorities, but many of today's pools operate through Switzerland and other European countries.

As a result, numerous pools are able to get the public interested in a stock by creating false activity, and then use the excitement engendered to unload large quantities of overvalued securities.

The Danger of Over-Regulation

The problem of regulation is also complicated by the simple fact that excessively rigid regulations stifle legitimate enterprises. The new issue market, for instance, has its abuses, but it also serves a vital economic function. Small companies as well as large, must have access to public capital if they are to obtain the funds needed for expansion. If some of the companies are risky enterprises, they are likewise the type that require venture capital. As long as prospective investors know of the risks, there is nothing improper in the picture.

The U.S. is a capital-rich country with an ever growing stock of investible funds seeking profitable outlets. It is the legitimate function of capital markets to provide these outlets. It would be a serious mistake to assume, therefore, that all of the excessive speculation in the market is due to manipulation or other fraudulent practices. Rather, the deception is superimposed on certain economic facts of life, which provide a fertile field for sharp operators.

Shortage of Prime Stocks Encourages Speculation and Fraud

► A brief review will provide perspective. The enormous capital available for investment by the public has been burgeoning at the same time that large corporations are generating an increasing percentage of their financial needs internally. In addition, what little outside financing they require is being increasingly obtained through borrowings rather than by the sale of stock and dilution of the equity of existing shareholders.

► At the same time, the public has little interest in lending money through the purchase of bonds, because an artificial interest rate structure has forced yields so low that the returns aren't worth the risks under today's conditions. In brief, the public wants to buy stock, but the major corporations are issuing very little. The result can be seen in the historically high prices in the market as the same shares are bid higher and higher.

► Into the void left by the major companies have stepped the smaller enterprises who see in the shortage of stocks a golden opportunity to "go public". Many legitimate reasons exist for their doing so. In some instances, it is nothing more complicated than the desire of the owners to diversify their own investments. In others, there are more pressing business reasons. Whereas big companies generate their finances internally, and can borrow at favorable rates from major lending institutions, the smaller, growing companies have exactly the opposite problem. For them, profit margins are low and the cost of capital comes high. In many instances they could borrow money only at prohibitive rates which would sap away their profits in good years and bankrupt them in recessions. "Going public" comes as a salvation to many of these companies. By selling stock to the public they obtain the funds to pay off the high interest debt that has been strangling them, obtain working capital which will make them more welcome borrowers at the major banks, and develop a stockholders list which can be called upon in the future if the need arises.

The process has resulted in many successful new companies even in some newly created giants. The problems stem from the fact that the thieves, manipulators and defrauders have stepped into the same void and have dirtied up the whole structure.

A Few Rotten Apples in the Barrel

Deceit prevails in just a small section of the stock market, but its potential impact, and the damage it can cause is great. In recognition of the abuses, responsible people on Wall Street have already taken steps to protect both themselves and the investing public. The New York Stock Exchange has issued warnings and has also wisely refused to ask for lowered margin requirements. Large brokers have voluntarily raised the mininmum size of margin accounts, and have declined to take orders for some stocks that obviously fail to meet even the remotest investment criteria. But the ultimate cure, we fear, will not come until many people get hurt badly.

In the meantime, however, the regulatory authorities will have to be more alert and take more aggressive steps to protect both the public and the legitimate securities dealer. One closing illustration will serve to illustrate his plight.

Banks, institutions and mutual funds are understandably big customers of the underwriters. They are a necessary part of the normal channels of distribution of new issues, and hence require a close working arrangement be-

tween the two parties. Many brokers are now complaining, however, that they are being forced by employees of some of these institutions to give them preferential treatment on new issues, at risk of loss of their business. Such unfair pressure is hard to resist unless new rules are laid down.

Nothing will hurt stock prices more, in the long run, than a general disillusionment with stock ownership. It is imperative that steps be taken now to halt the many abuses. END

The Role Of Licensing Agreements in the Development of Private Investment Abroad

(Continued from page 423)

The first is that it is difficult to ensure that the product manufactured by a licensee will meet the quality standards upon which the reputation and the markets of the licensor depend. And the second is the risk of setting up a future competitor in the global market.

● A licensor's main control on quality is care in choosing its licensee. There will always exist some risk, of course, but such can be diminished by a thorough investigation of any prospective licensee's qualifications.

● As for potential competitors, one way to lessen this possibility is to obtain a sufficient equity participation in the licensee. Such an interest is likely to make the arrangement more permanent. Also, by keeping one step ahead of the licensee on the development of technological data, the licensee's dependence and reliance on the licensor is ensured. Bearing in mind that, in certain situations, it is risky in terms of U. S. anti-trust policy to spell out restrictions as to sales territories in a licensing arrangement, another solution might be to have comparable license agreements in other countries where the first licensee might be interested in expanding his activities.

Importance of Choosing Licensee Carefully

Choosing the right licensee is the key in making a licensing arrangement work. Many firms in the industrial countries are anxious to become licensees of American companies; but often these firms do not have sufficient capital, lack the necessary technical skills and production facilities, or possess inadequate distribution outlets. Thus, although there are many willing candidates, the general effectiveness of the prospective licensee has to be examined closely. In doing so, American licensors generally focus on business reputation, technical competence, compatibility and the long-range potential of the would-be licensee.

● **One general warning in selecting a licensee is that family-owned or single-executive concerns should be approached with caution. A change in management could wreck a working relationship. The right to terminate the agreement in such circumstances should be reserved.**

Methods of Basing Compensation

● **Another significant issue is the compensation to be received by the licensor.** Many variable factors enter into remuneration and as a result diverse problems of compensation ensue. Generally speaking most American companies take their cut either in annual (or initial lump sum) fees based on the licensee's sales or in the earnings on minority shares in the licensee. Experienced licensors are principally concerned with the total value they receive for their rights and services rather than any one part of the remuneration. The current trend, however, is towards more equity participation in the licensee.

● A licensing agreement must be supervised continuously by management, if it is going to work. Regular exchanges of visits and periodic conferences solve many problems and help foster mutual trust and good will.

What If ––

Prospective licensors cannot help but wonder what would happen, if after a few years the licensee should break the agreement and turn the know-how and technical assistance against the licensor and thus make it impossible for the American to compete in that particular market. There is no magic or legal formula for preventing a licensee from doing this in every instance, of course, but the best insurance against a broken contarct is a mutually profitable relationship wherein the American manufacturer maintains its research and technical lead and consistently provides a flow of new ideas. By keeping the licensee dependent on the U.S. firm for dynamic know-how and essential service, the hazard of a future competitor is minimized.

Limitations Upon Licensing

Licensing arrangements, of course, do little to help the underdeveloped countries with one of their major needs—foreign capital. **These arrangements, however, do aid these countries to form their own capital more efficiently, and thus, in the long run, may actually be of more use to them.** Licensing is moreover, a way in which the industries of the advanced countries can cooperate among themselves with a

minimum of friction, destructive competition and governmental interference brought about by conflict between domestic and foreign-owned industry.

More important as a restriction on the effectiveness of licensing agreements is the necessity for the recipient country to be at a fairly advanced stage of industrial development, possessing at least the local industry and initiative capable of manufacturing the subject item, perhaps with machinery and personnel supplied by the licensor. Thus, whereas such countries as Argentina, Brazil, Mexico, India, and the Philippines, as well as Japan and Europe, are prime areas for licensing, such development is unlikely in primitive countries still comprising the bulk of the underdeveloped world.

The making of licensing arrangements for manufacture abroad is something that not only large, but medium-sized American firms can engage in, so long as they are technically advanced and have something of real value to offer the licensee, of profit to both. END

Photographic Industry In The Throes Of Transition

(Continued from page 429)

ance during the months immediately ahead. With all development costs having been written-off last year, and with large initial advertising expenses now behind the company, this product is expected to generate sizeable earnings this year.

In addition to its photographic equipment manufacturing activities, the company has also become increasingly involved in film processing. Among its recent pioneering efforts are a portable automatic motion film processing unit which requires only twenty minutes for dry-to-dry developing, and a new process known as "Thixotrol" which has an exciting potential. This process provides instantaneous film processing, and is expected to be ready for commercial application shortly.

Fairchild's record in recent years has been among the most outstanding in American industry, with per share earnings having increased from $0.57 in 1958 to $2.00 the following year, and $3.07 in 1960. Penalized by a strike and non-recurring expenses in connection with a plant relocation, first quarter earnings were behind those of the initial three months of 1960. Profits for the full year are expected to exceed those reported for 1960 by a wide margin however, and progress during the years ahead should also be impressive. Not only will Fairchild most likely continue to be a leader within the photography field, but also an important factor in other areas requiring continual and sophisticated product development.

Perfect Photo: Through an aggressive program of acquisition, coupled with strong internal growth Perfect Photo has emerged as one of the nation's leading integrated photofinishers. In June, 1960 the company introduced its 8mm color home movie film known as Colorchrome. Priced well below competitive films of comparable quality, this product has enjoyed a record of continual sales gains since that time. Marketed through drug chains and department stores the film is now being retailed on a national basis. Successful to date with this, the company's first entry in the film manufacturing field, Perfect Photo took another step in this direction last March with the introduction of a new "Two-in-One" film, which for the time being is being sold in limited test areas supported by national advertising. Priced only a few cents above ordinary black and white films, and well below competitive color films "Two-in-One" can be processed to give either black and white or color prints from the same negative. Available in most popular sizes the film has encountered instant acceptance wherever it has been offered, and so great has been the demand for it that the company is finding it difficult to keep up with incoming orders.

The company financially closed out its latest fiscal year (ended March 31) with a loss of $0.50 per share during the final six months, resulting in year to year comparisons of $0.40 in 1961 versus $0.83 the prior year. New acquisitions and construction were said to be the principal causes for this performance, and a renewal of favorable growth is expected this year. While earn-

ings could show substantial gains during the next few years if the "Two-in-One" film catches on, shares remain basically speculative as photofinishing is becoming increasingly competitive, and other new economy color films are entering the market.

Polaroid: The Land "Picture-in-a-Minute" camera and related films and accessories, continue to account for the bulk of Polaroid's sales and earnings. The company's record prior to last year has been excellent with per share earnings having increased from $0.15 in 1951 to $2.78 in 1959. While sales were once again at a new record high level in 1960, earnings declined to $2.26 per share primarily as a result of unusual write-offs, starting-up expenses and product modification costs. For the third straight quarter, earnings for the initial three months of 1961 trailed those of the prior similar period as sales were off 30% reflecting a high level of dealer inventories at the start of the year. Though $0.44 per share behind last year's results, more favorable comparisons during the remainder of the year are expected to provide full year earnings only slightly behind the 1960 figure.

Durng 1960, two important new products were introduced. The new Polaroid Land Picture Roll which was first marketed last fall produces finished pictures within 10 seconds, in contrast to the 60 seconds previously required. Not only does this development provide the amateur photographer with added convenience, but also extends the medical X-ray applications of the Polaroid equipment to situations where speed in picture-taking and processing is vital. In October, quantity shipments of the Polaroid Electric Eve Land Camera commenced. The first mass-produced camera to set exposures automatically over the entire range of picture taking (day or night, and indoor or outdoor), this development represents another important Polaroid first.

The company continues to make progress on its long-awaited color film. Trial runs on production equipment are expected before the end of 1961, although timing of the initial marketing of the film remains uncertain. This stock is already selling at almost 100 times 1960 earnings.

Technicolor: Traditionally dependent upon its process for motion picture color film photography, in recent years Technicolor has expanded its activities in the consumer products and services field. Revenues from amateur film processing have grown rapidly since 1956 when the company first entered the non-professional field. A number of minor acquisitions have taken place recently to provide a distribution system for Technicolor's new line of consumer products to be introduced this year.

One product which has caused much comment is a new motion picture projector for home use which is easier to operate and maintain than any other similar equipment now available on the general market. The company is also expected to commence sale of a new color film known as Technochrome jointly with General Aniline. Both products will be marketed initially on a test basis within limited geographic areas, and are not expected to be important earningswise until the fourth quarter. While operating results in recent years have been unimpressive, the company reported earnings of $0.16 per share for the first quarter of the current year in contrast to $0.16 per share reported for 1960 as a whole. Aided by the new consumer products, full year earnings could fall within a range of $0.80 to $1.00, but this stock is currently selling at 50 times last year's earnings of 16 cents a share.

Despite this sharp indicated earnings improvement if projections are realized, the shares remain speculative pending consumer reaction to the company's new products for the amateur photographic field.

In Sum

Altogether, the camera stocks appear to be generously priced at this stage of the market, reflecting as they do expectation of continued growth and thus discounting their prospects sometime into the future. As more and more companies get into the field prosperity will depend on high level consumer income and spending, a situation which still needs to be clarified.

At the same time, the progress of individual companies should be constantly reappraised, for their competitive positions can change markedly with the creation of new types of film, cameras and

accessories. Some companies, such as Bell & Howell and Fairchild, for example, have a substantial amount of government business, which must be taken into consideration quite aside from their consumer photographic business. END

How Conscienceless Labor Leaders Are Crippling Our Economy

(Continued from page 417)

as we look at some of the fantastic money wastage at our missile bases that this Communist theory may indeed point toward our eventual financial collapse.

- **A check of a contractor's payroll during a single week showed 90 pipefitters at Vandenburg Air Force Base were each paid more than the $365 received weekly by Vandenburg's commanding general.**
- **A common labor foreman at Canaveral received $434 in a week, $1.00 more than the compensation of the Air Force Secretary.**
- **Many workers on the missile sites earned at the rate of $26,000 a year, five times the rate of comparable workers in ordinary civilian employment.**
- **In many instances missile site workers have engaged in scandalous and unreasonable jurisdictional make-work projects, Pipefitters at Vandenburg Air Force Base, for example, refused to install a manifold, a prefabricated complex of stainless steel piping, on grounds that all pipe under two inches should be assembled by them on the site under their contract.**
- **Told that this would harm the equipment, the unioneers finally agreed to "bless" the manifold. The "blessing" was achieved by putting a scratch on the manifold and by the men then sitting around doing nothing, at full pay, for the time they estimated it would take to tear down the piping and reassemble it.**

These are but a very few instances of conscienceless acts of labor unions and their officers who take great pride in union participation in any patriotic rally, such as the Fourth-of-July, but who are not above milking the last possible dollar from the taxpayers as they desperately try to checkmate the international Red conspiracy.

New Legislation Needed

In connection with the missile site labor stoppages, the President, in cooperation with Secretary of Labor Arthur Goldberg and AFL-CIO President George Meany, has issued an Executive Order that is hopefully expected to end conscienceless labor abuses at our missile sites. Reinforcing the move has been a "no-strike" pledge by the unions.

Value of this pledge is thrown in some doubt, however, by memory of labor's performance in World War II when a like pledge was followed by more than 14,700 work stoppages, many of them directly hampering the war effort.

A pledge means nothing to the man or men devoid of conscience. Needed is legislation that alters the Constitutional definition of treason to the act of giving aid and "comfort to the enemy in time of a *cold* war." This is the only answer to the problem of conscienceless men who pay higher tribute to the dollar sign than to the stars and stripes and the welfare of all the nation. END

What To Do About . . . Stocks That Passed Dividends —Those Where Dividends Are In Jeopardy

(Continued from page 433)

first quarter of the current year. The issue has certainly been disappointing to long-term holders, but can be viewed as a speculative issue even at its present price. **Eaton Manufacturing,** with its axles and transmissions, is more exclusively an automotive company, and will probably be unable this year even to equal last year's net of $2.23 a share, already down sharply from 1959's $3.60. Again, however, the company has followed a policy of dividend stability and continuation of the 45¢ quarterly rate can be expected.

Ruberoid's Long Dividend Record

Two building companies, **Ruberoid** and **Philip Carey,** both show a pretty fair expectation of continuing current dividend rates—50¢ and 40¢ a quarter, respectively—despite sharply reduced earnings last year and unsatisfactory performances in the recent first quarter. Both of these companies are manufacturers of as-

phalt and asbestos roofing and flooring products, among other items, and should benefit from accelerated maintenance and modernization, even though no more than a mild recovery in residential construction is expected within the early future. Ruberoid has maintained an unbroken dividend record since 1889, with payments no smaller than $2 since 1954. Carey's record is not so venerable but moderately improved 1961 results should still protect the current rate sufficiently.

American Radiator does not justify quite as much confidence. Although the current 80¢ rate already represents a substantial reduction from the former $1.40, which became untenable with the continued downtrend in earnings, adequate protection will require a substantial improvement in recent results. The company is more closely dependent upon new construction than renovation and has been tardy in meeting changes in consumer tastes.

Curtiss-Wright's Search for a New Identity

One of the hardest hit of all airplane component manufacturers by the transition to the jet and the military de-emphasis of manned aircraft has been **Curtiss-Wright**, formerly a major producer of engines and propellors. Sales have already dropped from a peak of $599 million in 1957 to $270 million last year, with a more than proportionate effect upon profits, and the company is now busily looking for some new employment for its vast facilities. Whether this will be in conventional products or revolutionary developments like the air car remains to be seen, but it can be regarded as certain that the transformation will be prolonged and expensive. Thus, even the current 25¢ quarterly dividend, contrasting with a payment as high as $3. in 1957, cannot be regarded as secure.

Generalizations of Little Help

The actual or threatened dividend reduction almost invariably reflects a deterioration in earnings, temporary or basic. The duty of the investor is to decide when the picture is hopeless or when a reversal of trend is a reasonable expectation. Even when the company's problems do seem to be susceptible of correction it may still be wise to give up a stock, transferring to another item with better early promise. Exaggerated importance should not, of course, be given the results of a single period—such as the 1961 first quarter—especially where a strong seasonal pattern is normal. But it must also be recognized that the position of the strongest companies can deteriorate. In reaching decisions whether to hold or sell such issues generalization will be of negligible value; final judgment must be based on the most thorough possible knowledge of the individual situation. END

Transition In Sugar Industry Looks Good For Investors

(Continued from page 437)

Hawaii and Puerto Rico now supply major percentages of our needs, the conditions existing in these territories preclude any significant expansion of output. In fact, they are having difficulty in filling present quotas; it is estimated that about 550,000 tons of their respective allocations will have to be filled from other areas this year.

Sugar has long been the leading Hawaiian crop, with much effort put into increasing the productivity of available land, but future gains will be limited as technology is already far ahead of other areas, and land is being shifted to other uses.

Puerto Rico suffers from a similar problem, aggravated by poorer weather and a continuing loss of field hands to new industries attracted by tax incentives and low labor costs. The major companies—Fajardo Eastern, Central Aguirre, and South Puerto Rico Sugar thus have little in the way of long range growth to look forward to. Fajardo shares, however, are selling near their highs as the result of a take-over bid by **C. Brewer** a major Hawaiian concern seeking to introduce modern Hawaiian methods to Puerto Rican sugar growing. If present plans go through, Fajardo holders should get about $40 a share.

Capacity Available in Dominican Republic

South Puerto Rico Sugar has about three-fourths of its production in the Dominican Republic, and has thus suffered from the strained diplomatic relations with that country. With the assassination of Dictator Trujillo some improvement of relations may develop, and the remaining 200,000 tons of our sugar needs yet to be allocated may go to this area. In any event, firming prices in the world market have followed our own allocations, which have removed overhead supplies, and this should have a beneficial effect, as would better weather. As an indication of the improving picture, directors of South Puerto Rico Sugar recently increased the quarterly dividend from 15¢ to

30¢. All told, the Dominican Republic has about 775,000 tons available for export each year, so developments there will have considerable impact on the world market.

Some Risk in Duplicating Cuban Facilities

As a direct result of the Cuban government's seizure of the properties of the major sugar producers there and the subsequent reluctance of the U.S. to buy any Cuban sugar, a major push has developed in other areas of the world to expand productive capacity to take advantage of the lucrative American market. (Because of the Quota control of supplies, the U.S. prices for sugar run about 2¢ above the level of the world market.) Three sugar mills are being built in the Florida Everglades, with a fourth likely; production capability of present mills is also being enhanced. Other mills are being constructed in Panama, Egypt and Argentina.

► What does this mean to the investor in sugar equities?

Basically, it would appear that to the extent that the new mills go up in the U.S., the domestic supply of sugar will be expanded and reliance on other countries reduced. This will stabilize the source of supply and reduce the possibilities of foreign governments influencing our supply as happened in Cuba. This is a good thing. On the other side of the coin, however, there may well come a time when Castro is overthrown and the U.S. government may wish to reassign a good share of the previous quota back to Cuba, to bolster its economy under new leadership friendly to the United States. To the extent that such a development is likely, the investor in the new domestic facilities is taking a substantial risk.

But Domestic Companies Should Win Higher Stature

In closing, it should be noted that probably the greatest potential for investors lies in the areas of domestic production. There appears to be a swing toward greater dependence on domestic output, and this is healthy for the industry. If between now and the expiration of the present basic sugar legislation in 1962 the U.S. government can come up with sound longer range sugar objectives, further stimulus should be supplied for the domestic companies to commit funds to new plants, and this, too, would be beneficial for all concerned. We look for increased investor recognition of the potential of this group—potentials stemming from a protected market, stable yet growing demand, increasing efficiency, and government emphasis on home output—with generally more favorable price-earnings multiples for the domestic companies. END

The Business Analyst

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brighter side to this coin in that lower price levels could spur demand in the affected fields. The sectors that will bear close watching in the months ahead are consumer spending and capital spending. If these areas begin to move up strongly, as they have in the past, then final demand will receive a vital spur and the economy will be in a good position to move toward new highs. END

Rare Metals . . . Key To Nations Defense

(Continued from page 414)

formidable one. Our Federal stockpiles are equal to or in excess of projected needs for a three-year war; Cuban and Congo crises present no serious threats to our defense metal requirements, and ample supplies seem in prospect for space-age materials.

Alternative Assumptions

Before closing the discussion on our metals readiness, it would be pertinent to consider the perceptive comment on this question by Percy W. Bidwell in his book "Raw Materials — A Study of American Policy." Mr. Bidwell said:

"An all-out war fought with nuclear weapons, if we are to believe military experts, would create such disaster as to render useless present calculations of trends in demand for industrial materials. Our political leaders, however, encourage us to believe that the occurrence of such a catastrophe is not probable. It now appears equally improbable that in the next 20 or 25 years the United States will engage in a protracted military conflict of world-wide scope requiring full-scale industrial mobilization. If, however, such a war should be fought, we might expect that the military demand for certain materials would absorb practically the entire available supply, leaving only a bare minimum for essential civilian needs, and making necessary extraordinary programs of substitution and conservation. As things stand now, the continuance of the present state of no peace-no war, punctuated perhaps by armed conflicts of limited scope and duration, seems the most probable." END

For Profit and Income

(Continued from page 439)

did well in earlier years, but would have done better subsequently just with diversified holdings of run-of-the-mill stocks. Over two-thirds of assets are in uranium ventures and in stock of Northeast Airlines. At the end of 1960 net assets per share were down to $4.66, from a peak of $10.93 in 1955, and at the lowest level in 13 years. Atlas stock has fallen from a 1955 high of 11⅛ to 3⅝. This is a reminder that investment company managements can make mistakes and that there can be big risks in inadequate diversification.

Easy Come, Easy Go

When market fads evaporate, many stockholders are sadder, but the public as a whole is not wiser. In due time, there will be new fads, new speculative excesses; money made, money lost. Here are some declines to date from earlier highs: Transitron (such a nice name) 59%; Nafi (also an interesting name) 53%; Brunswick Corp. 31%; Outboard Marine 53%; Vendo 42%; Universal Match 47%; Collins Radio 55%; General Controls 52%.

Yields

If you want income return, you can get 4½% to 5¼% in many preferred stocks and corporate bonds, with far more safety of capital than can be had in common stocks. But you get no protection against long-range inflation; and, under present con-

ditions, probably no chance for even small appreciation over the next year or two. Indeed, the bond market could work lower. So could the stock market. There is an alternative while most stocks remain too high. Cash in a savings bank at 3% looks pretty good right now. END

The Trend of Events

(Continued from page 405)

Recommendations concerning the Federal Reserve System include a fully discretionary uniform discount rate to be established for all Federal Reserve banks (determined by the Federal Reserve Board), and a major reliance on open market operations, with changes in bank reserve requirements to be used only sparingly. ● Elimination of the distinction between country and reserve city banks is called for, as is eventual repeal of statutory reserve requirements against time and savings deposits. ● The Federal Reserve Board's Chairman should, in the opinion of the Commission, serve four-year terms concurrent with those of the President, with the latter choosing the Chairman from among the Board's membership. Here again, the question of encroachment on the independence of the agency vs. better policy coordination arises.

● The Commission comes out for Federal charters to be made available for mutual savings banks, some extension of branch banking within "trading areas" irrespective of state laws and boundaries, and taxing of commercial banks, mutual savings banks and savings and loan associations on a basis which would insure "competitive tax equality."

The recommendation that Congress review the adequacy of existing legislation concerning financial institutions does not seem to really come to grips with the problem of the relative decline of the importance of commercial banks, and thus with the direct area of Federal Reserve control, in relation to the overall financial community. A more positive step was the favoring of an appropriate regulatory body to be given additional responsibilities over private corporation pension funds.

Other important proposals and analyses involved the "proper mix" of monetary, debt management, fiscal and credit policies in relation to the achievement of desired economic goals. The 29 pages on international monetary relations present some thought-provoking possibilities as to courses of action by the U.S. and world monetary authorities.

Although the report has been criticized in some quarters as leaning too heavily on the Federal government as an economic force, quotes from the preface and introductory chapter of the report explain the purpose rather concisely . . .

". . . the reader will no doubt gain the impression that this report stresses particularly the significance of government in our affairs . . . This is natural since the subject of the Commission's work is the responsibility of governmental institutions in promoting the success of our economy . . . the recommendations are based on the fundamental assumption that the economy will continue to be largely a private enterprise economy . . . the Commission believes, however, that both private enterprise and government have major and complementary roles to play in achieving national objectives and that neither one nor the other can do the whole job . . . Consequently, the recommendations deal with both government and private enterprise and they try to strengthen the effectiveness of both."

We will have more in the July 15th issue, including an analysis of the strong criticism of the report's adequacy by its own Vice-Chairman. END

Book Reviews

Business Cycle Indicators

In Two Volumes
Edited by GEOFFREY H. MOORE

A topic of wide current interest, and one on which the National Bureau of Economic Research is an outstanding authority, is the possibility of identifying statistical series that are good forecasters or Indicators of the short-run cyclical trends of business activity.

This study assesses the value and limitations of a large number of indicators, and develops a short list of those found to be most useful as a guide to the over-all trend of business in the United States. The statistical record for each indicator in this new list is carried through 1959. The text explains why some indicators "lead" while others "lag," and describes techniques for extracting useful information from the raw data. One chapter demonstrates that economic indicators for another country, Canada, behave in about the same way as their U.S. counterparts.

In addition to its analysis of current business conditions, the material in these volumes contributes substantially to our knowledge and understanding of the nature of business cycles of the past, thus making a valuable addition to economic history. For business cycle theorists it furnishes a vast mass of reliable statistical data that will be useful both in theoretical analysis and in the search for "causes" of changes in the level of business activity.

Princeton — 2 Volumes—$15.00

Shadows on the Grass

BY ISAK DINESEN

Out of Africa is perhaps Isak Dinesen's most widely read work. Now this distinguished Danish writer, who lived in Africa for many years, recalls again the African land and people she knows so well.

Endowing dramatic experience with her wondrous insight, she presents in this new book four additional stories:

FARAH
In which the storyteller describes a mistress-servant relationship "as picturesque as that of Don Quixote and Sancho Panza".

BARUA A SOLDANI
(Letter from a King)
In which is told the story of a letter that banishes all pain.

THE GREAT GESTURE
In which the storyteller shows how generosity triumphs over superstition.

ECHOES FROM THE HILLS
In which recollections of the past crowd in upon the storyteller, now far away, when she hears news of her friends in Africa.

Written in the exquisite prose that is the hallmark of all of Isak Dinesen's writing, this timely new work has, as well, the authority that derives from a deep personal knowledge of her subject.

Random House — $3.75

Two Natural Resources Stocks That Should Add To Our Profit Record

Our anlysts have selected for well-timed purchase two promising stocks where rising earning power and bright 1961-62 prospects should help to foster healthy Capital Growth.

AN UNUSUAL SITUATION — Yielding Over 5% — Well financed and integrated

This company enjoys aggressive management — low cost operations — and has ample capital for expansion into new fields. Profits increased 8% last year but rose nearly 100% in the first quarter of 1961. Freedom from long term debt — with cash and government securities of more than 1½ times short term liabilities, give added assurance to liberal dividend. Selling more than 10% under its 1961 high, this issue seems definitely under-priced.

NEW DYNAMISM FOR THIS ISSUE —

Still selling about 10 times earnings

This is a most unusual situation — where earnings soared 56% in 1960 and 70% in the first quarter of 1961. The current dividend represents a 3.4% yield but a hike in this payment is likely soon since it is being earned 3-times over. New management has sparked efficiency in all sectors of corporate activity including diversifying into new fields. This stock should prove a rewarding committment for income and appreciation.

OUR MOUNTING PROFIT RECORD

We expect that these two attractive issues and other carefully selected recommendations of emerging opportunities, which would be called to your attention as a subscriber, will add to our outstanding profit record in the coming year.

Our January 1961 audit showed 684 points appreciation on the 22 stocks carried in our Forecast bulletin. Our audit at the end of June showed 253 more points added.

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